JPRS-CEA-86-114

27 OCTOBER 1986

China Report

ECONOMIC AFFAIRS

FBIS FOREIGN BROADCAST INFORMATION SERVICE

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

JPRS-CEA-86-114

27 OCTOBER 1986

CHINA REPORT
ECONOMIC AFFAIRS

CONTENTS

NATIONAL POLICY AND ISSUES

Liu Guoguang on Price Reform Issues, Tasks
(Liu Guoguang; CAIMAO JINGJI, No 5, 11 May 86) 1

Price Reform During Seventh 5-Year Plan
(Chang Qing; LIAOWANG OVERSEAS EDITION, 16 Jun 86) 12

JINGJI YANJIU on Rural Nonagricultural Industry
(JINGJI YANJIU, No 8, 20 Aug 86) 17

ECONOMIC MANAGEMENT

Shenyang's Three Major Experiments
(Zhou Baohua, Lin Chen; LIAOWANG, No 25, 23 Jun 86) 47

FINANCE AND BANKING

Financial Balance Reported Achieved in Every 5-Year Plan
(CAIZHENG, No 5, 8 May 86) 53

Bank of China Outlines Major Tasks for 1986
(Wang Deyan; ZHONGGUO JINRONG, No 4, 4 Apr 86) 54

Fulfillment of Budgetary Target for 1986 Stressed
(Wang Bingqian; ZHONGGUO SHUIWU, No 5, 12 May 86) 58

INDUSTRY

Tertiary Industry Newly Emerging Force in Country
(Ji Xing; LIAOWANG OVERSEAS EDITION, No 28, 14 Jul 86) 63

Development of Ship Dismantling Industry Discussed
(Wu Xiuwen; WUZI GUANLI, No 5, 20 May 86) 66

Guangdong's Industrial Growth Rate Discussed
(Tang Weiying, et al.; KAIFANG, No 5, 8 May 86) 70

New Development of Shaanxi's Metallurgical Industry
(Cao Shangyu; SHAANXI RIBAO, 22 Mar 86) 75

Shenyang's Old Enterprises Completely Transformed
(Jiang Min, Zhao Xueshan; LIAOWANG, No 29, 21 Jul 86) 76

SMALL-SCALE ENTERPRISES

Success of Leading Township Enterprises Analyzed
(ZHONGGUO XIANGZHENQIYE BAO, 11 Jun 86) 79

CONSTRUCTION

Issues Concerning Urban, Rural Construction Discussed
(Xiao Tong; JIANZHU, No 4, 7 Apr 86) 81

Consolidation of Construction Market Discussed
(Fu Renzhiang; JIANZHU JINGJI, No 5, 18 May 86) 87

Waste in Construction Sites Deplored
(Xu Renzhong; RENMIN RIBAO, 25 Jul 86) 90

Anhui Develops Planned Commodity Housing
(Zhang Zhenguo; RENMIN RIBAO, 28 Jul 86) 91

DOMESTIC TRADE

Economic Cooperation in Bohai Region Discussed
(Zhang Ying, Li Lan; TIANJIN RIBAO, 27 May 86) 93

FOREIGN TRADE AND INVESTMENT

Trade Shift to CEMA Said Caused by Discontent With FRG Firms
(HANDELSBLATT, 22 Jul 86) 94

LIAOWANG on Reform of Foreign Exchange System
(Shuang Mu; LIAOWANG OVERSEAS EDITION, No 38, 22 Sep 86) 96

Importance of Foreign Trade, Exports Underscored
(Xu Yaozhong; BAN YUE TAN, 25 May 86) 100

Garments Currently Second Largest Export
(Li Jian; GUOJI SHANGBAO, 9 Jun 86) 102

Shanghai's Foreign Investment Plan for Seventh 5-Year Plan
(Xu Qiuliang, Zhang Debao; WEN HUI BAO, 8 Jun 86) 104

Briefs
Hebei Chemical Exports Soar 105
Yunnan Chemical Exports 105
Hebei Trade Talks Close 105

SPECIAL ECONOMIC ZONES

Zhuhai Economic Zone Flawed by Poor Planning, Mismanagement
(TAGESSPIEGEL, 22 Jun 86) 106

POPULATION

Preliminary Enquiry Into Floating Population
(Zhang Qingwu; RENKOU YU JINGJI, No 3, 25 Jun 86) 108

TRANSPORTATION

Change to Diesel Engines on Zhejiang-Jiangsu Railway Reported
(Wei Yongming; RENMIN RIBAO, 15 Jul 86) 114

Improved Research in Railway Sector Urged
(Sun Baorang; RENMIN RIBAO, 16 Jul 86) 116

/9987

NATIONAL POLICY AND ISSUES

LIU GUOGUANG ON PRICE REFORM ISSUES, TASKS

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 5, 11 May 86 pp 7-12

[Article by Liu Guoguang [0491 0948 0342]: "Circumstances and Issues In China's Price Reform"]

[Text] 1. In order to realize the goal of socialist modernization, China today faces the major tasks of transforming the economic structure and reforming the economic system. However, completion of these two tasks is restricted by irrational prices. The progress of modernizing China's economy will be severely hindered if we do not solve the problem of irrational prices. As a result, price reform has become a crucial issue in the further development of the entire national economy and in the further reform of the entire economic system.

2. Existing prices in China are highly irrational and involve two interrelated aspects. One is a serious distortion of the price structure that reflects neither value nor supply and demand. The other is an overcentralized system of price control in which the mechanism for price formation is very rigid. Serious distortions of the price structure are mainly manifested in: (1) Low purchasing prices of agricultural and sideline products. Since 1966 there has been very little increase in the purchasing prices of agricultural and sideline products. The purchasing prices of grain have remained basically unchanged and grain-growing at a loss was a widespread problem. (2) Irrational price parities between industrial Prices for some energy resources and raw and processed materials are too low while prices for some processed industrial products are too high. For example, in 1979 the profit to investment ratio in state-run industrial enterprises at or above the county level among energy and raw material departments were 2.1 percent for coal, 1.6 percent for iron ore, 4.4 percent for cement, 3.2 percent for ores used in chemical engineering, and 4.8 percent for timber selection; among processing industrial departments, they were 44.9 percent for rubber processing, 38.4 percent for dyes and paints, 61.1 percent for watches, 39.8 percent for bicycles, and 33.1 percent for chemicals. (3) Incomplete prices of construction products. Prior to 1980 the cost of construction products was the price, which did not include profit. Rent was even lower. The annual rent collected from 273 cities throughout the country was merely one-quarter of the expense on housing property management and

maintenance. (4) Low prices of communications and transportation, urban public utilities and service trades. (5) High price subsidies. This primarily involves the inversion of subsidized purchasing and selling prices of grain and edible oil, and so forth. Between 1971 and 1980 the state spent a total of 190,890,000 yuan on price subsidies, which was equivalent to 22 percent of the fiscal revenue during the same period.

Rigidity of the price formation mechanism is manifested in: (1) The power to fix prices is concentrated in the hands of the government, particularly the central government, while enterprises do not have the power to fix prices. (2) The forms of prices are dull, dominated by state-planned fixed prices. (3) Prices are over-controlled. Once prices are fixed it becomes very difficult to readjust them. It often takes 3 to 5 years to readjust the price of a product. The rigidity of the price formation mechanism is an important cause of the prolonged irrational character and even its intensification of the price system.

This rigid price formation mechanism is a necessary component of China's original and highly centralized economic system characterized by administrative coordination and material control. Under this rigid system, the main functions of prices are limited to: (1) being a statistical tool to measure the rise and fall of use value; (2) being a tool for the redistribution of national income, to centralize financial resources through price parities and price differences and used for the most pressing tasks of the state. But prices are often ignored as a function of accounting economic results, stimulating technology progress and guiding the disposition of resources. The irrational and rigid price structure formed this way cannot possibly be used for correctly evaluating the economic results of enterprises and departments; it proves unfavorable to the economization and rational disposition of social resources and hinders proportional coordinated development of the national economy. China's socialist economy has not developed in a sufficiently ideal way in the past 20 to 30 years, and this cannot be dismissed as one of the important causes.

3. Beginning from 1979, price reform has experienced a change from having a unitary to a dual goal. The restructuring of China's economy proceeded from expanding the autonomy of enterprises and the irrational price structure has caused enterprises to experience financial ups and downs in the course of expanding their autonomy. Readjusting irrational price parity relations and making the price structure rational to give production departments a generally similar profit rate have therefore become the most important goal of price reform. However, along with the intensification of rural economic reform and the all-out urban economic reform, planned readjustment of prices by the state is not only limited in scope by the state financial resources and society's capacity to endure it, but it is also outdated by changes in market supply and demand relations. Therefore, reforming the rigid price formation mechanism, making prices fairly reflective of supply and demand and regulating supply and demand have become the second goal of price reform. In the past 7 years, price reform has been carried out and pushed forward precisely along the dual goal of making the price structure rational and making the price formation mechanism flexible.

With respect to the price structure, since 1979 there have been 6 readjustments which are nationside in scope and are of relative signifcance. (1) In 1979 the purchasing prices of agricultural and sideline products were drastically raised and more major agricultural products were purchased at higher prices. In 1983 the purchasing prices of agricultural products went up by 47.7 percent over 1978. Excessively low purchasing prices of agricultural and sideline products have undergone a great change. (2) At the same time when the purchasing prices of agricultural and sideline products were increased, in 1979 the retail prices of 8 categories of non-staple food and their corresponding manufactured goods in cities were increased by about 30 percent while corresponding pirce increase subsidies for non-staple food were issued to staff and workers. (3) From 1979, the producer prices of coal and some heavy industrial goods were readjusted one after another. The price of raw coal was raised by 30.5 percent, pig iron 33 percent and steel products 20 percent. (4) In 1981 the price of polyester cotton cloth was lowered and the prices of tobacco and liquor were raised. (5) In 1983 the prices of textile goods were totally readjusted, by which the price of chemical fiber textiles was lowered and that of cotton textiles was raised. (6) In 1984 the fees for railway freight and water transport of passenger and freight were increased, and in 1985 the fee for short-distance railway freight transport was further increased. The price structure was somewhat improved through these 6 major price readjustments, but irrational conditions did not undergo any basic change.

With respect to the the price control system, initial reforms have been carried out in recent years. The authority of local government to control prices has been expanded and some power to fix prices has been handed down to the enterprises, reducing the scope of fixed pricing by the state and expanding the scope of participation in price regulation by market mechanism, gradually forming a mixed price system. In concrete terms, with the exception of grain, cotton and edible oil which are purchased according to fixed contracts by the state, the prices of most agricultural and sideline products have basically been left to market regulation; the prices of small commodities among industrial consumer goods have been entirely left to market regulation, and free prices are implemented instead; floating prices are basically used for textile goods among light industrial goods and electromechanical products among the industrial means of production; the prices of energy, raw materials and other means of production have gradually taken up the path of "double-track system" of price reform which combines "readjustment" (planned readjustment) and "letting go" (relying on market regulation).

(4) After 7 years of reform, many changes have taken place in China's price system which has begun to break away from the framework of traditional state-planned fixed prices, forming a transitional mode of "tiered double-track" system with a Chinese character. So-called "tiered" system is a form of pricing for different products which simultaneously includes state-planned fixed prices, floating prices and free prices. Under the "tiered" price system, planned readjustment of the price structure and readjustment relying on market regulation are separately carried out according to the products. Price readjustment prior to 1984 basically used this tiered form. So-called "double-track" system means for the same product, state-planned

fixed prices are implemented within state plan and market prices are implemented outside state plan. Beginning in 1984, with the double-track system of pricing of the means of production as the start, the new model of reform was begun whereby planned readjustment and market regulation of prices for the same product were simultaneously carried out. To a certain extent, the formation of the "tiered double-track" form of pricing has realized the dual goal of the price reform: (1) There has been some relaxation of the financial ups and downs of enterprises under the old and irrational price structure and some trades which had deficit begin to make profits. (2) The formation of prices of quite a few products can reflect and affect the relationship between market supply and demand, some prices have started to become an important paramenter for readjusting production and sales and determining the direction of investment. In short, the results of price reform in the past 7 years are important. Readjustment of the prices of agricultural products has effectively promoted the development of agricultural production, enabling China to change from reliance on the import of major agricultural products to self-sufficiency in grain production and more than self-sufficiency in cotton. Price reform of industrial consumer goods has given impetus to product development of China's industrial consumer goods and many major products have basically satisfied the people's daily growing needs. To varying degrees, other price reforms have also played a role in readjusting prices and making them rational.

5. China's economy is now entering the Seventh Five-Year Plan period. In this new stage of development, we must lay the foundation of a new socialst economic system that is Chinese in character, and at the same time, on the basis of improving economic results, further readjust the national economic structure, ensure the realization of economic and social development in the Seventh Five-Year Plan and lay a good foundation for the vitalization of China's economy in the 1990's. Even though much results have been achieved in price reform during the past 7 years, compared to the needs of further developing China's economy and further restructuring the economic system, the price structure remains highly distorted and the price formation mechanism remains very imperfect. With respect to the price structure: state-planned prices of basic facilities such as energy, communications and news dispatch and certain basic raw materials are low while market prices are too high; the excessively low rent, retail prices of grain and edible oil as well as fees for some public facilities are still established on the basis of a large amount of financial subsidies. With respect to the price formation structure, we have not been able to form a mechanism that is flexible and suitable to economic development needs. Readjustment of prices which are controlled by state plan is still not flexible enough; some prices which can be readjusted by local authorities or enterprises are still over-controlled. In the tiered structure of the price formation mechanism the proportion of state-planned fixed prices remains high, representing about 40 to 50 percent of the output value of industrial and agricultural commodities, while in cases where the double-track system of prices, fixed prices within the state plan constitutes a larger proportion while the role of market prices outside the state plan is limited, making it difficult for the double-track system of prices to accurately reflect changes in market supply and demand. Moreover, excessive divergence of prices within the

state-plan result in the market clashing with it, chaos in the circulation system and serious reselling for profits. In short, China's economic development and economic restructuring demand continued intensification of price reform. Price reform remains one of the most important tasks in China's economic restructuring.

6. In order to basically realize the change in China's economic system from a centrally planned economy to a planned commodity economy in the Seventh Five-Year Plan period, it is necessary to complete the task of reform in three interrelated areas: further increasing the vitality of enterprises; developing and perfecting the market system; and changing state management of enterprises primarily from direct to indirect control. Price reform runs through the three major reforms and is an essential condition for successfully pushing them forward.

The fatal hindrance of traditional form of pricing to the reform of enterprises lies not only in that profits are too high or too low for different products under a distorted price system making it difficult to be an accurate yardstick to measure business results of enterprises thereby causing financial ups and downs among enterprises, or in that enterprises do not have the power to fix prices in the rigid system of price control and cannot promptly react to changes in relationship between market supply and demand. It also lies in the fact that the old form of pricing is an important factor in weakening the budget restraint of enterprises. Hardening the budget restraint of enterprises and building a self-restraint mechanism for enterprises are basic tasks in the reform of enterprises. If prices are centrally drawn up by the state, enterprises will be justified to haggle with the state by reason of inequitable prices, and likewise the state may use pricing to encroach on the autonomy of enterprises and make use of their economic achievements without making any compensation. Price reform is an essential condition in hardening budget restraint of enterprises and pushing the reform of enterprises forward.

Developing and perfecting the socialist market system is intended to strengthen the status and role of the market coordination mechanism within the entire system of economic regulation, which likewise cannot be separated from reform of the price mechanism. The price mechanism is the heart of the market coordination mechanism while the price system is the most effective signal system is the market coordination mechanism that relays information on changes in supply and demand. Strengthening the function of the market coordination mechanism in the rational distribution of resources poses an even greater demand on the price system. Through reform, not only must the price system reflect changes in the conditions of production thereby reflecting changes in the social labor consumption, but it must also reflect changes in the conditions of exchange, or changes reflecting the relationship between market supply and demand, in order to effectively give play to the role of market coordination mechanism.

As for the transition of the state's microeconomic control primarily from direct to indirect control, we must transform prices from being a tool for direct administrative control by the state to a parameter of economic regulation that exercises indirect control through the market, a point that needs no further elaboration.

7. Concerning the question of the goal-oriented model in China's price reform. As discussed above, through several years of reform, China's price system has begun to depart from the traditional framework of state-planned fixed prices, forming a transitional model of the tiered double-track system which has a Chinese character. In this transitional model, what will happen to the coexistence of state-planned and fixed prices, floating prices and free market prices in future economic restructuring? In the goal-oriented model of price reform, which of the three coexisting forms of prices should dominate? There are three different views on this question. The first view holds that state-planned fixed prices should play the principal role, supplemented by floating prices and then market prices. This price model has not deviated from the setup of the traditional price system. The second view holds that floating prices should play the principal role, supplemented by market prices and then state-planned fixed prices. The problem of this price model is that it will be difficult for the standard and range of floating prices specified by the state to eliminate the intrinsic chronic malady of state-planned fixed prices. The third view holds that market prices should play the principal role, supplemented by floating prices and planned prices. This price model is better conformed to the long-range goal of the overall economic restructuring. The ultimate system which China must achieve through reform should be one in which market coordination plays the principal part and in which there are planned guidance and macroscopic control. In such a system, prices cannot merely be a tool for computation or for the distribution of national income, but should function in accounting economic results, stimulating technological advance, transmitting information on supply and demand and guiding the distribution of resources. Obviously, state-planned fixed prices and floating prices cannot be equipped with these functions at the same time. Only market prices under given conditions can give play to all these functions. These given conditions are: (1) both parties in commodity exchange are principal parts with independent economic interests; (2) absence of widespread monopolistic factors; (3) presence of a buyer's market in which supply is greater than demand; (4) presence of open circulation channels and efficient circulation organizations. The new economic system realized through reform will generally be able to provide the essential conditions needed by these market price operations.

Of course, the market price system itself has shortcomings known to everyone. It is easily affected by radical changes in the relationship between supply and demand resulting in damage to the macroeconomic equilibrium. Moreover, it is difficult to avoid losses brought by post-regulation. Within certain bounds, state-planned fixed prices and floating prices can compensate for the shortcomings of market prices, reduce the degree of price fluctuation and control changes in the price level. Therefore, in the new price model, state-planned fixed prices and floating prices remain indispensable as key elements of compensation.

8. Regardless of the type of price reform adopted, it should aim at readjusting the price structure and making it rational. However, the kind of prices that can be considered rational is also debatable. One view

maintains that prices are rational as long as they reflect the relationship between market supply and demand and that it is unnecessary to design additional standards. Another view maintains that the basis of prices is value, rational prices ought to be those that reflect the relationship between market supply and demand on the basis of value. It seems that the latter view conform more to the present demand in China for readjusting prices and making them rational.

First, the use of value as a basic symbol of rational prices can guarantee an average profit rate of overall equality among all trades and professions. As for the standards used to compute the average profit rate (average capital profit rate, average profit rate of wages, or double channel average profit rate), it is a question that needs to be better resolved when calculating theoretical prices. Second, If prices are purely determined by the relationship between supply and demand, then when excessive price fluctuations or when excessive deviation between prices and value in this relationship are caused by monopoly and opportunism as well as other psychological factors of people responsible on both sides of supply and demand, such prices are not likely to be rational. Moreover, besides the standards of value and of supply and demand, a rational price system should also reflect policy requirements. State policies must not only eliminate monopolistic and opportunistic factors which hinder normal fluctuations in supply and demand, but they must also reflect the types of supply and demand to be encouraged or restricted, on which basis we will adopt different taxes, subsidies and other economic and administrative measures, affect or change the spontaneous market supply and demand relations in order to accelerate the formation of an industrial property structure and consumer structure that suit the needs of China's conditions and development. In short, whether the price system achieved is rational through price reform cannot be entirely judged by the spontaneous market supply and demand relations but necessary consideration must be given to the relations of product value and state policy requirements.

9. China's economic restructuring does not adopt the "wholesale" form, that is, for all aspects of reform, "accomplish the whole task at one's stroke", but it can only take the path of "gradual advance". This is the case with price reform. The change from the old price model to the new price model and from an irrational price structure to a rational price structure cannot be a one-time action of wholesale solution but can only be a process of gradual realization. This is because China's price system is totally irrational and quite a number of prices need to be readjusted. Moreover, these are frequently major commodities concerning the national economy and the people's livelihood whose contradictions between supply and demand are more acute. Sudden readjustment or market regulation will cause changes that are too extensive, and state, enterprises and the masses of people will find it difficult to accept. At the same time, we must take into account that the current market mechanism is still imperfect, laws and regulations of price supervision and control are still unsound and the management levels of cadres are still unsuitable. As a result, we can only adopt the method of gradual advance and proceed step by step. Among China's economists today, few advocate the view that price reform ought to take big steps and to be accomplished in one stroke. The central issue of the debate is

whether the pace of gradual advance should be a little faster or a longer slower. The substance of the issue is how to do a good job in handling the relationship between making the price structure rational and stabilizing price levels.

10. It is clear from real life that in the course of price reform it is unrealistic to demand a zero price increase. If such a demand is made it will mean that price reform cannot be carried out. At present, the reform of China's price system is structural reform but not a general structural price readjustment. The general structural price readjustment is to increase the prices that are low and reduce those that are high, thereby under the prerequisite of strict control over the currency supply, we can maintain the stability of the general price level. The current structural reform of prices in China primarily aims at eliminating the state of controlled low pricing of some important commodities resulting from the past. Most of these controlled low-priced commodities are agricultural and mining products and belong to basic prices. Moreover, the irrational parities between the low prices of these basic products and the prices of other products were cumulated over a long period of time; the number of products that need to be readjusted are many and the extent of price adjustment is fairly great, which cannot hope to be completely absorbed by enterprises that produce follow-up products. As a result, to carry out structural price reform and readjustment will inevitably cause the general price level to rise. However, if changes in the price level and the corresponding growth of the needed currency supply are limited to the scope of readjustment of the irrational price structure, without adding the factor of inflation, then the rise in general price level will not be excessive. If we again adopt the guiding principle of proceeding step by step and spread the price increase brought by the readjustment of the price structure over several years, we can better ease the pressure of price increase and make it easier for all sides to accept. No doubt, the disadvantage lies in the ill effects of irrational prices on the national economy which may drag on for a long period of time. But in order to ensure stable development of the economy and social stability, it may be worthwhile to pay this price.

The amount of increase in the general price level is directly related to the society's capacity to endure price reform and is an important limiting factor to price reform. Price reform itself will cause structural increase in the price level, and if price reform and inflation occur at the same time, then the rate of increase of the general price level will further increase, which will affect our readjustment of the irrational price structure. The more the currency supply exceeds the needs of economic growth and readjustment of the price structure the greater will be the effect on the increase in the price index and the more price reform will be forced to slow down. Otherwise the two will fluctuate together and the situation will be very dangerous. If the currency supply is at just the right amount and its effect on the price index is minor, then the pace of price reform can be a little faster. In order to do a good job in handling the relationship between readjusting the price structure and stabilizing the price level, and in order for the price reform to make steady advance at a suitable speed, a very important issue for the present and the entire Seventh Five-Year Plan period is strict control of the currency supply and the total demand of the society, prevention and elimination of inflation. Otherwise, the course of reform of the price structure and the change in the forms of prices will be adversely affected.

11. In what area should the next step in price reform begin? There are also different views on this question. Some maintain that we should start with perfecting the purchasing prices of agricultural products while some believe that we should begin by solving the inversion of purchasing prices of grain and edible oil and the excessively low rent thereby solving price "subsidies" from state finance, and so forth. Today, most economists in China lean toward the view that the next step in reform should start with price reform of the means of production and solving the prices of basic products such as energy, communications and raw materials. The main reasons are: (1) the prices of basic products are low, high prices of processed products are the crucial reason for the distorted current price system. The prices of basic products are the basic prices of the price system, each time they undergo a change all other prices are directly or indirectly affected. If these prices cannot be readjusted and rationalized first, it will be hard to imagine the rationalization of the entire price structure. (2) Basic products are the most important material basis of national economic development and are the part that should take the lead in development. Enterprises which produce basic products are mostly large and medium-sized state-run enterprises. Readjusting and rationalizing the prices of basic products first will both benefit advance development of departments which produce these products and is also an effective measure to enliven large and medium-sized enterprises. (3) Contradictions between the supply and demand of basic products are serious. By accurately arranging price signals we can obtain distinct economic results and can promptly build a good signal system needed by the socialsit market system in order to readjust the investment structure and industrial property structure and improve the relationship between supply and demand. (4) Begin with basic products. Factors of price hikes are easier to be absorbed and digested by enterprises that produce follow-yp products. In the current price system, the overall pattern of profit rates of different products are: industrial consumer goods are higher than the means of production, processed goods of the means of production are higher than basic products. When the prices of basic products are adjusted upward the capacity to endure follow-up products will be greater. (5) Changes in the prices of basic products have little effect on the price level of consumer goods. According to calculations, an annual increase of 10 percent in the prices of basic products will raise the cost of machinery products and light industrial products in the processing industry by 4 to 5 percent. The effect of upward price adjustment of basic products on consumer prices must go through a serious of intermediate links as well as absorption and digestion by the processing industry, which has a great deal of leeway. The effects of price hikes will be greatly weakened by the time they reach the daily living standard of the people.

Based on the above considerations, people have advocated to make solving the existing problems in the prices of energy, communications, raw materials and other basic products as well as the corresponding readjustment and rationalizing the prices of various types of follow-up products the key starting area and central task of price reform in the Seventh Five-Year Plan period. Corresponding plan to reform all other types of prices should coordinate with this strategic guiding principle. In view of this overall strategy, price reform in the Seventh Five-Year Plan can be divided into three preliminary, intermediate and final stages. In principle, the prices of products with serious contradictions of supply and demand are to be solved in the preliminary and intermediate periods. The intermediate and final periods will primarily deal with the chain reaction of price hikes of basic products. The prices of agricultural products can be separately dealt with at different times according to circumstances. Solution to the inverted grain and edible oil prices as well as excessively low rent should be carried out as complement to the planned readjustment of wages, and this needs to be studied carefully.

12. Reform of the prices of energy, raw materials and other basic means of production should continue to persist in taking the path of double-track coexistence and combining planned readjustment and market readjustment within and outside state plan. Practice of two different kinds of prices within and outside state plan for the same means of production is a special product under the conditions of China's implementation of reform by gradual advance. No doubt, as goods and materials are short in supply, planned prices are too low and cannot be readjusted, prices outside state plan are bound to emerge. However, the legalization of prices of the means of production outside state plan by which the double-track system of pricing was determined and widely popularized as a key measure in the price reform for the means of production is an event of recent years. Double-track prices appeared in the course of the gradual advance type of reform and is a central reflection of the coexistence of the dual system of the old and new, particularly the coexistence of the dual system of planning and dual system of mataerial circulation. The basic thinking behind the double-track price reform is: gradual market regulation of a portion of the products of state-run enterprises within state plan which is allowed to enter the market and using the method of increasing the ratio outside state plan to reduce the originally high market price level, and at the same time use the method of gradual readjustment to enable prices within state plan to rise and to allow prices within and outside state plan to come close together and finally reach towards unification. The pros and cons of implementing double-track prices of the means of production are so evident that it has caused intense debate within economics circles. Its advantages are: (1) It can stimulate production to surpass state plan and production outside state plan; (2) it can make it possible for areas not covered by state plan to easily obtain means of production; (3) high prices outside state plan can promote economization and the need to control poor results; (4) it is characterized by flexibility and can also control the general price level by readjusting the ratio between distribution and allocation of products and free market circulation, give the flavor of economic regulation to the measures of planned distribution of the means of production. Its shortcomings are: (1) it easily clashes with state plan, affect key state construction projects and assurance of materials for key development departments; (2) it easily creates chaos in the realm of commodity circulation and makes market management more difficult; (3) it destroys the function of currency as a general equivalent; (4) multiple prices for the same item complicates accounting for enterprises and creates confusion in enterprise management;

(5) price differences within state plan stimulates the growth of small enterprises, protects backward enterprises, impels small factories to squeeze the large ones and the backward to squeeze the advanced, deteriorating the scale structure and technological makeup. Besides, excessive price differences within and outside planning will also create opportunities for speculation and profiteering. In view of the numerous problems the double-track system will bring, some scholars maintain that we must abolish double-track pricing as early as possible and practice unified prices. At the International Symposium on Macroeconomic Management held on the vessel Bashan on the Changjiang River last September, most of the Chinese and foreign scholars felt that double-track pricing of the means of production may be a creation of China's price reform but its duration should be shortened as early as possible for the transition from double-track to single-track system.

However, it should be clear that the total social demand is currently too high. In particular, as the scale of investment has not yet been able to reduce to a suitable level and as no basic change has taken place to the excessive demand on the means of production, prices outisde state plan continue to be pushed upward, which will further widen the gap with prices within state plan. By then, regardless of reducing the ratio of planned allocated products or increasing the prices of products within the state plan, it will be difficult to reach the goal of transition from double-track pricing to unified pricing. In order to realize such a transition, first we must solve the problem of macroscopic equilibrium between the total demand and total supply in the national economy. If this problem is not solved, the double-track system of the planned system and the double-track system of the material circulation system as well as the double-track prices which centrally reflect the two cannot be eliminated. Moreover, before completing the transition of China's economic development strategy from speed-oriented to result-oriented development, and before completing the change in direction of the entire economic structure, it will be difficult for the time being to solve the problem of macroscopic equilibrium as described above. Therefore, it is perhaps hard to shorten by too much the length of transition from a dual system to a new unitary system and from double-track pricing to a new price system as Chinese and foreign economists have hoped. This transition may exist throughout the course of China's economic restructuring. This being the case, in order to coordinate with and accelerate the completion of China's economic restructuring, we should recognize the inevitability of double-track pricing during the transition period, make the best use of the situation, actively take advantage of double-track pricing and try our best to adopt effective measures to limit the various malpractices it brings.

9586
CSO: 4006/1241

PRICE REFORM DURING SEVENTH 5-YEAR PLAN

Hong Kong LIAOWANG OVERSEAS EDITION in Chinese 16 Jun 86 pp 13-14

[Article by Chang Qing [1603 3237]: "Strategic Choices Regarding Price Reform in the Seventh 5-Year Plan"]

[Text] During the Seventh 5-Year Plan (1986-1990), which begins this year, China must lay the foundation for a new order with Chinese characteristics, on the one hand, and maintain steady economic growth even as it continuously adjusts its economic structure, on the other. Accordingly, price reform is a strategic battle the country must wage in the Seventh 5-Year Plan.

What Economic Growth Demands of Price Reform

Although the Chinese government took pains to achieve balanced growth and carried out economic adjustments during the Sixth 5-Year Plan, the results toward the end of the period were less than totally satisfactory. An unsound price system has resulted in the underpricing of basic industrial products such as energy, transportation, and raw materials, and overpricing and excessive profits in processing industries. While state investments during the Sixth 5-Year Plan favored those industries given short shrift in the past, extra-budgetary funds have been steered by prices toward processing industries, thus exacerbating the imbalance in China's economic structure. The present economic setup shows that a colossal adjustment awaits China in the Seventh 5-Year Plan. Clearing the barriers in the path of economic growth has been put on the agenda.

What Reform Calls For In Price Reform

If China is to further its economic reform, it must vigorously develop a commodity market, perfect market mechanisms and regulate production according to market demands. Blocking all this, however, is an insurmountable barrier: To invigorate enterprises, market mechanisms must be introduced, but such mechanisms are made inoperable by unreasonable market prices which lead to unequal competition and distort the profit motives of enterprises.

To change this state of affairs and turn enterprises into relatively independent commodity producers, we must perfect the market system and indirect control, both of which require the rationalization of prices. For this reason, price reform is a crucial issue in the first half of the Seventh 5-Year Plan.

Some Strategic Choices Facing China

To create a sound price system in the Seventh 7-Year Plan, China must make choices regarding the model of price system, the kinds of commodities to be affected as well as the sequence in which they will be affected. These choices will define its overall plan.

-- choosing a price model.
There has been much discussion but little agreement on the model of price system. First, the model should be consistent with that of the planned commodity economy. The latter requires controlled market prices. Second, in the new era of economic growth, production must be geared to needs; we must go after structural balance amid a dynamic environment. The model of planned prices has no place in this kind of environment, while the model of market prices will function well in it. Besides, the establishment of a new order in the Seventh 5-Year Plan requires a price system where market prices play a central role. Otherwise, we cannot even begin to talk about establishing a new system. Consequently, the model we should aim for is one of controlled market prices. Zhao Ziyang points out in his "report on the Seventh 5-Year Plan," "Through reform, we must gradually establish a system in which apart from the prices of a tiny minority of commodities and services which will be set by the state, state guidance or market regulation will determine the prices of most commodities and services." In other words, price control will prevail in the public sector, in monopolies, and in other industries where the market does not operate perfectly. In industries which are susceptible to market movements, have an extended supply cycle, and are essential to the functioning of the national economy, prices will be set through state guidance to spread out and iron out excessively sharp price fluctuations. As for those industries where the market operates perfectly, it will be the market that determines prices within a framework of macroeconomic regulation.

The Seventh 5-Year Plan is a transitional time when the new will replace the old. During the first half of the plan, therefore, planned and guiding prices will be the norms. Toward the latter half of the period, guiding prices and market prices will be the dominant models.

-- choosing commodities for price reform
During the Seventh 5-Year Plan, we should first reform the prices of means of production before tackling consumer goods, for these reasons: (1) To do so will be to meet an urgent demand of economic growth at the moment. We should reform as we adjust, increase the prices of means of production without delay, enable prices to increase supply and check demand, and effect balanced growth; (2) Adjusting the prices of means of production first will have a lesser impact on market prices. The prices of means of production are interrelated, and their adjustments may neutralize one another. Hence the effect on people's livelihood and public finance will be relatively insignificant. This

approach will run into less non-economic resistance and helps ensure a smoother passage for reform as a whole; and (3) The prices of means of production are basic prices. Sorting them out first will facilitate price reform overall.

During the first part of the Seventh 5-Year Plan, we should coordinate price reform with the adjustment of the industrial structure by curbing strong industries and promoting weak ones, hold the line on price increases for consumer goods, and reform the prices of means of production based on energy, transportation and raw materials. During the middle of the plan, we should work out reasonable procurement prices for agricultural products, lift price control on some agricultural products, and, depending on the situation at the time, resolve the problem of resale prices falling behind procurement prices. The last part of the Seventh 5-Year Plan should be devoted to coordinating consumer goods price reform with wage reform.

--choosing a method
A valuable lesson we learned from reform last year is to combine deregulation with adjustment. But circumstances differ from case to case, and we must deal with each case on its own merits. For some products, our policy should essentially be one of deregulation; for others, one of adjustment. Among the major criteria are the following: (1) the relevant price model. To regulate prices is to plan prices. If a product belongs to that group of industries under price control, we should work out a planned price through adjustment. If the price of a product is to be determined through market forces, we may first adjust and then deregulate, or do both simultaneously, depending on the circumstances; (2) kind of product. This is an important criterion in determining whether we should deregulate or adjust. We can only adjust, not deregulate, the prices of certain rare commodities, eg., perennial resources. In the case of monopolistic products, eg., petroleum and electricity, we can deregulate only their secondary list prices. What can be deregulated are highly competitive products with a short production cycle; (3) It is the market that decides whether we deregulate or adjust. The market supply-demand situation and the degree to which market mechanisms can operate unobstructed are critical. Theoretically we should deregulate the prices of certain products, but imperfect market mechanisms preclude such a move. Under these circumstances, we can only begin by adjusting and then deregulate. (4) Supply-demand elasticity is a crucial basis on which to decide whether one should deregulate or adjust. It is advisable to adjust the prices of products with little supply elasticity. Conversely, products with a high supply elasticity should have their prices deregulated.

--choosing a pace
Some people believe we should go slow on price reform in the Seventh 7-Year Plan to play safe. Others recommend a moderate pace, arguing that only by proceeding neither too fast nor too slowly will price reform succeed. Actually it is totally meaningless to discuss speed in the abstract. Instead, we should base our response by how we answer these specific questions: (1) Are we talking about means of production or consumer goods? In the case of the former, price adjustments are interrelated, may be absorbed by enterprises, and have only a limited impact on market prices. Hence we can afford to move quickly to adjust their prices. (2) What about timing? But for the explosion

of total demand and the collapse of macroeconomic control, price deregulation alone would not have led to the skyrocketing prices last year. We should decide the pace of deregulation or adjustment by the prevailing circumstances. (3) How well coordinated is price reform with other reforms? If price reform is part of a coherent reform program, it can be fast-paced without causing problems. When price reform goes it alone, even a minor move can lead to social unrest.

What Price Reform Should Be Coordinated With

Experience is the best teacher. Critics have systematically reviewed reforms in the Sixth 5-Year Plan this year and put forward many astoundingly novel suggestions. As far as price reform is concerned, they propose that it be coordinated with fiscal and wage reforms. In my opinion, price reform must be accompanied by four things, particularly next year.

-- adjustments in the industrial structure.
Prices serve a regulatory function and help rationalize the industrial structure. It follows that price reform should be accompanied by a clarification of our policy of industrial structure adjustment so that we will know what we are after. First we must unify the strategic choices regarding economic growth with our price strategy. We should deal with different industries and products differently. Limits should be imposed on thriving industries while those which have been neglected should be nurtured through deregulation or adjustment. Some industries should be allowed to grow at an accelerated pace to overtake others when circumstances so justify. Financial subsidies and prices must move in tandem to avoid any adverse effects. In addition, prices and taxes must relate to each other; as prices change, so must production tax rates.

-- perfecting macroeconomic control
The macroeconomy got out of hand in late 1984 and early 1985, causing immense difficulties for price reform. That was obvious to all. Is there an explosion of total demand? How strong is our indirect regulatory capacity? These externalities will decide whether or not price reform will succeed. If we are to effectively control demand during the Seventh 5-Year Plan, we must improve planning and make total control its focus. As planners, we should balance total supply with total demand so that the latter will grow appropriately within permitted limits. Needless to say, fiscal and monetary policies are important tools of macroeconomic control and regulation. We must balance our budget and come up with a small surplus. We must also revamp the tax system. Inflation must be avoided at all costs when price reform is under way.

-- enhancing society's ability to absorb price changes
Price reform can only go as far as the economy, enterprises, the social psychology, and citizens' pocketbooks let it.

To help the national economy absorb price changes, we must do everything possible to minimize the repercussions of sharp price fluctuations. We must move cautiously and prevent runaway inflation from damaging the economy.

To better enable enterprises to absorb price changes, we must first maintain a suitable rate of national economic growth and facilitate production. Second, we must exert certain external pressure on enterprises to make them aware there is a limit to their demand. Finally, we must bring about equal competition and improve economic management.

To reinforce the citizens' ability to cope with price changes, we should mainly coordinate the prices of consumer goods with wages so that the two keep pace with each other.

To reconcile society to price changes and achieve a "common understanding" with the public, we must use propaganda tools effectively, fully appreciate the long-term and complex nature of reform, tell the difficulties to the people honestly and explain to them clearly what we are striving for. We must never "arouse excessive expectations" or "keep the people in the dark."

--coordinating with market organization
Our experience in price reform so far proves that lifting price control does not amount to putting together a market. Hopefully what has come into existence is not a primitive market but a controlled one. We may approach market organization in the following ways:
(1) perfecting market supply-demand mechanisms. When the supply-demand equation fails to respond to prices effectively, the latter will not be able to play its regulatory role to the full. Hence the need to perfect the mechanism of interest restraint.

(2) clearing circulation channels. This should be carried out in accordance with the demands of commodity circulation. Channels may be short or long, but they must be free from fragmentation or blockages. We must ensure that commodities flow smoothly.
(3) stepping up information work. To make the market more sophisticated and further deregulate prices requires the state to establish an appropriate information system to guide production and business operations.
(4) ensuring an orderly market. Economic leverages should be used to bring about equal competition among enterprises. Administrative management should be strengthened. On the books now are a series of laws governing advertising, trademark, quality, and other aspects of industrial and commercial management. We must use a combination of economic, administrative and legal tools to ensure an orderly market.

Economic growth and structural reform during the Seventh 5-Year Plan require China to put together a sound price system as soon as possible without causing severe repercussions, which, in turn, demands that it plan comprehensively and make wise choices. Even more important, it must coordinate its moves closely and proceed steadily. Only than can it act strategically and achieve its goal.

12581
CSO: 4006/1156

NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON RURAL NONAGRICULTURAL INDUSTRY

Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 86 pp 9-24

[Economic research report by Industry and Enterprise Research Department of Institute of Development Research: "On the Development of Non-Agricultural Industry in Rural Areas--An Active Force in Promoting China's Transformation of the National Economic Structure"--passages within slantlines published in italics; passages within double slantlines published underscored]

[Text] 1. The progress of the rural economic structural reform in our country in the past few years has initially stimulated the active role of rural development in promoting the development of the national economy as a whole. In the two research reports (Research Group on China's Rural Development: "New Growth Period of National Economy and Rural Development" carried in JINGJI YANJIU Issue No 7, 1985, and "On the Transformation of the National Economic Structure--Macroeconomic Environment of Rural Development in the New State" carried in JINGJI YANJIU Issue No 5, 1986) that we have already published, we pointed out that from 1979 to 1984, the extraordinary growth of the cultivation farming in our country gave rise to a sharp increase in peasants' currency income, quickly expanded the turnover of our rural economy, vigorously changed the original layout of our national economy, and became a prominent new phenomenon in the economic operation of our country. At the same time, they also pointed out that as the rural responsibility system with remuneration linked with output was popularized and as the productive force was emancipated in an even more widespread manner, there had already been a historic change in the supply and demand relation in the market of agricultural products all over our country and a normal manifestation of the trend of the decline of the proportion of agriculture in our economy; therefore, a period of a great transformation of the structure of our national economy would come. With this background, the task of reforming the composition of our rural undertakings has finally been put on the order of the day for our economic development.

I. Position of Rural Non-Agricultural Industry in the Transformation of the National Economic Structure

2. Rural non-agricultural industry has already begun to develop vigorously in our country. By the end of 1985, the number of township and town enterprises throughout our country rose to 10.94 million. They employed 64.16 million people, accounting for 18 percent of the total number of able-bodied laborers in our areas, and yielded a gross social output value of 248.1 billion

yuan, accounting for 15.3 percent of the gross output value of our society and for 40 percent of the gross output value of our rural community. (Footnotes 1, 2) (The documents and materials cited in the context are listed in a list of footnotes at the end of this report.) After deduction of the portion of agricultural activities by our township and town enterprises, in 1985, the total income and number of employees in the non-agricultural industry throughout our country respectively rose by 344 and 92 percent over 1979, which meant an annual average growth rate of 28.21 and 11.54 percent, respectively. (Refer to Table 1) These growth rates were clearly much higher than the growth rates of income and employment in the agricultural sector in the same period.

Table 1. Growth Rates of Rural Non-Agricultural Industry (percent)

Undertaking	Income		Employment	
	Gross increase	Annual average	Gross increase	Annual average
1. Industry	284	25.1	72	9.5
2. Communications and transport	361	29.0	92	11.5
3. Construction	644	39.7	192	19.6
4. Commerce and service	841	45.3	140	15.7
5. Total	344	28.2	92	11.5

Sources of Data: Refer to footnotes 7, 8, 9, 1, and 2.

3. At present, rural non-agricultural industry is often criticized for its relatively low efficiency, but what would have been the gross efficiency of our national economy if the "rustic" non-agricultural industry in our rural areas had not developed?

Table 2 is a comparison of the per capita net output value in various sectors in our country. From the table, we can see that the per capita net output value in our agriculture is respectively 15 percent of that of our mining industry, 14-64 percent of that of our manufacturing industry, 17.8 percent of that of our initial infrastructure sector, and 37.1 percent of that of our service trade. This means that on average, the transfer of one laborer from the agricultural sector to non-agricultural sectors can increase 1,979.4 yuan of net output value. According to this calculation, the number of people employed in non-agricultural sectors rose by over 20 million in total in our country's rural areas. This was equivalent to an increase of 40 billion yuan of net output value, accounting for 11-12 percent of the increase in our national income in that period. From this we can see that the development of this non-agricultural sector first greatly heightened the gross efficiency of our national economy. Forbidding this transfer means a failure to achieve better efficiency.

Table 2. Per Capita Net Output Value of Various Sectors in Our Country in 1981 (Yuan)

Sectors	(a)	(d)	(e)
Agriculture	555	513	615
Mining	--	2,053	4,093
Food processing	3,853	4,325	951
Other light industries*	2,430	2,755	1,414
Other heavy industries**	2,200	3,130	2,386
Machine building industry		2,115	4,202
Primary infrastructure***	1,668	2,025	3,457
Service trade****	1,792	1,628	1,658
Total	985	1,050	1,207

Sources of data: (p 55 of Footnote 10)
In the table, (a) is the value in terms of the net output value of material products; (d) has taken into consideration the various covert value created by the service trade; and (3) is the value after readjustment of price errors.

* Textile, garment, timber, paper, and othermanufacturing industries;
** Chemical, coal mining, oil products, mining of nonferrous metal ore, and metal products industries;
*** Construction, power, gas, water supply, and transport industries;
**** Commerce, education, public health undertaking, public administration, national defense, and other service trade, but not including the housing property sector.

4. As is expounded by the article "On the Transformation of National Economic Structure," the lack of coordination in the structure in our country requires a change in the characteristics in the flow of the economy and calls on paying greater attention to continuously tapping our internal economic potential. Starting from this strategic basic point, we should not ignore the following facts that are determined by our national conditions: On the one hand, the latent capacity of our market as a function of our total population is mainly in our rural areas. Without an increase in the income, consumption and savings of our peasants who account for 80 percent of our population and without an expansion of our rural market, it is impossible for us to put into full operation the various mechanisms for increasing the flow of our economy, even less is it possible for us to harmonize the relations between various structural parameters. On the other hand, at present, most of our country's labor resources are in our rural areas. This determines that our rural areas will be a main site for us to organize our labor resources and utilize them as a substitute for our financial resources, that they will also be a major site for transferring and spreading our country's existing amount of assets and that although we should rely on the economic functions of the state power in transforming differential income from land into social funds, the basis for the transformation, namely the changes in the power of ownership and possession, the transformation of land products into commodities, and the changes in productivity also mainly take place in our rural areas. It is precisely under the

above-mentioned specific background that we again realize the prolonged significance of the development in our rural areas for the overall situation of the transformation of the structure of our national economy.

5. The increase in our peasants' currency income has become a major pillar for the expansion of our domestic market. This has been an important economic phenomenon in the past few years. According to checked calculation, about two-thirds of the increase of 179.8 billion yuan in the total retail sales of social commodities from 1978-1984 was owing to the increase of sales to our peasants. In 1983, the purchasing power of our peasants accounted for 52.5 percent of that in the whole community.

So far, we do not have any statistics directly available to show the amount of currency income that our peasants earn from their non-agricultural undertakings. In 1979, the per capita wage income in the commune and brigade enterprises all over our country is 238.5 yuan. If the portion that those worked in these enterprises got through the distribution in their production teams was taken into account, the figure would be about 245 yuan. If this figure roughly reflected the year's currency income from non-agricultural industry in our rural areas, then the total amount of this income for 1979 had to be 5.82 billion yuan, accounting for 6.1 percent of the currency income of the rural production teams and commune members in that year. (p 17 of the book in footnote 4) According to the same method of calculation, the currency income from non-agricultural industry in our rural areas for 1984 was 28.83 billion yuan, accounting for 12.5 percent of the total currency income there. This proved that the development of non-agricultural industry has already yielded an impact on the structure of peasants' currency income.

In fact, it was not until 1984 when the trend of this change has become even clearer. For there has been a change in the conditions for the extraordinary increase in agricultural products. There has been a decline in the trend of increase in the cash income from sales of agricultural products, in particular grain and cotton, which was originally the major cause for the increase in peasants' cash income. According to a state survey of 66,000 samples of rural households by the State General Team of Rural Sampling Survey, in 1985, the peasants' cash income from their sales of agricultural and forestry products increased by 2.8 percent over the year before, but their non-agricultural income rose by 43.1 percent. In that year, 58.6 percent of the total per capita increase of cash income (amounting to 61.44 yuan) came from non-agricultural undertakings. (p 91 of footnote 5) Therefore, the fierce expansion of our domestic market in 1985 (the total retail sales of commodities in the society rose to 430.5 billion yuan, an increase of 27.5 percent or 17.2 percent after readjustment of inflation over the year before (Footnote 6)) was to some extent internally related to the development of rural non-agricultural industry.

6. We have pointed out that, as per capita national income rose relatively quickly in the past few years, an important change characteristic of a new stage has taken place in the composition of demand in our market of consumer goods. However, often our supply system has to adapt itself to the change slowly. Owing to the obstacles in our economic structure, the failure of our supply to meet the demand has become even more serious. This is conspicuously

shown in the contradiction in our market structure, namely, while tens of billions of yuan of money is laid idle because people cannot find suitable goods to buy, tens of billions of yuan of unmarketable commodities are stockpiled in our storerooms. Serious shortage and serious stockpile coexist.

This structural contradiction is a serious challenge. If we fail to handle it properly, it will delay the process of the development of our national economy into a new stage of growth and may even give rise to a certain extent to confusion and turbulence.

However, the cash purchasing power of our peasants provides a buffer for us. For the starting point of rural residents' consumption is relatively low and they need to buy commodities of relatively lower grades; therefore, it is easier to satisfy their demand by the existing supply system at home. According to an analysis of the data concerning the per capita consumption of major commodities, in 1984, the average consumption of 12 categories of food by our rural residents except for grain and salt was only 20-90 percent of that by urban residents; that of 26 categories of consumer goods of daily use by our rural residents with the exception of sweatshirts and pants and shoes entirely made of plastic, was only 17-74 percent of that by our urban residents; and that of 9 categories of consumer durable goods by our rural residents was only 5-65 percent of that by our urban residents. From 1982-1983, a large amount of goods that had been stockpiled for many years in our commercial stock were consumed mainly by the increased purchasing power of our peasants. If there had not been this economic force that functioned as a buffer, the high economic growth rate our country has achieved in the past few years would have been inconceivable and the structural contradiction in our market would have surely been even sharper.

7. An analysis from the supply-side point of view reveals that the transfer of rural labor to sectors of higher productivity also provides some new opportunity for substituting labor for other production factors and for the further exploitation of our production factors. From 1979-1984, an increase of 4,100 yuan of fixed assets in our country's township and town enterprises can provide 1.22 jobs and increase the gross output value by 10,000 yuan (Footnotes 7 and 8); while in the same period, the state-owned enterprises of the same categories had to acquire 7,460 yuan of additional fixed assets to increase their gross output value by 10,000 yuan and could only thus provide 0.4 jobs. (pp 306, 413 and 216 of Footnote 12) In other words, our rural enterprises use 0.82 laborers as a substitute for 3,360 yuan of fixed assets. According to this calculation, the increase of a total of 83,615,000,000 yuan of gross output value by the township and town enterprises all over our country from 1979 to 1984 meant providing 6,689,000 more job opportunities than our enterprises owned by the whole people would have done and substituting labor for 2.81 billion yuan of fixed assets. This has clearly been of great significance for the economic development of our country which has plenty labor but lacks funds.

8. The process of our peasants taking part in the non-agricultural sector of our national economy also means a process of spreading and transferring the existing amount of assets to our township and town enterprises. From

1978-1984, the cost value of fixed assets in the rural enterprises all over our country increased by 34.5 billion yuan. According to the estimate on the basis of some typical investigation data, 35-45 percent of this was the purchase of second-hand machinery and equipment, of which the total value was 12-15.5 billion yuan. According to our estimate, the written-down value of these fixed assets contributed over 20 percent of the increase in the gross income of our rural enterprises (which increased by 19.7 percent on an average each year) in that period.

9. The impetus of money was indispensable for both the large-scale employment of labor as a substitute for funds and the spreading and transference of urban existing assets to rural areas. The process of the emergence and development of our township and town enterprises has proved that it is possible to rely on the continual absorption of the productive force released by the structure of our rural undertakings itself for the continuous deepening of the transformation of the structure of our rural undertakings. Of the 33.2 billion yuan of new investment in the township and town enterprises all over our country from 1980 to 1983, 56.6 percent came from the internal accumulation of funds in these enterprises, 12.6 percent was raised by the enterprises themselves, and 30.8 percent was as loans from banks and credit cooperatives. Since 1984, there have been some changes in this situation. However, taking the period from 1979-1984 as a whole, the loans to township and town enterprises by our banks and credit cooperatives rose by 26.45 billion yuan, but in the same period, the bank deposits of these enterprises rose by 9.8 billion yuan and the bank deposits of their staff and workers rose by 18 billion yuan, the total increase being 27.8 billion yuan which exceeded the increase in loans. In the 6 years, the township and town enterprises paid a total of 26.28 billion yuan of tax in addition to providing funds for their expanded reproduction. This was 3.8-fold the 7 billion yuan of funds that the state finance allocated to help these enterprises. They delivered 30.8 billion yuan of profits to townships and towns and this was roughly equal to the total state investment in agricultural capital construction.

10. In short, the basic model for our township and town enterprises is to substitute the use of some cheap labor for some funds and then to expand the scope of this substitution through the impetus given by the money pooled on the basis of expanding their own accumulation. In this way, these enterprises utilize the existing amount of assets in the society by various indirect means and promote the transfer of the labor factor that originally is hidden in our agricultural sector to the sectors of higher productivity. Only a profound understanding of the characteristics of our country's national economy as a whole and the demand of its development at the current stage can urge us to fully confirm the development of non-agricultural industry in our country's rural areas.

11. The development of rural non-agricultural industry is of huge significance other than an economic one. For our peasants who have lived on their land generation after generation, developing non-agricultural industry first means that they have to learn the rules of the activities in a new sphere. In particular, after the non-agricultural industry breaks the original boundary of rural sideline undertakings, it requires those who are engaged in it (no

matter how thoroughly they were farmers before) to have and be adapted to new social relations with new minds, new field of vision, new values, and new ethics and behaviors. This is indeed a lesson that people must learn in modernizing China. The classrooms where this lesson is given are simple and crude, but this lesson is of inestimably great significance.

For our cities, the rise of non-agricultural industry in rural areas may to some extent give impetus to the reform in our country's economic structure. The reform in the system of our township and town enterprises will have greater impact than the implementation of the contracted responsibility system. Principally, it is technically not suitable for urban property to be assigned by equal responsibility contracts among the people as we do in assigning land. But from the very beginning, our township and town enterprises do not assign responsibility by such equal contracts. The various experiments of assigning responsibility for the management of the enterprises by contract, the corporation system, partnership, the system of sharing ownership, renting enterprises, and even selling enterprises to people have been carried out in these enterprises. The reality of the coexistence of various kinds of ownership in rural non-agricultural industry has had and will continue to have great impact on our urban system. As China has not upheld any perfect theoretical program beforehand in carrying out its reform, the impact of examples is in fact even greater. It is precisely in the industrial, construction, commercial, communications and service activities that are engaged by tens of millions of people who have entirely not relied on any all-round support by the state, that we can find a large amount of valuable information to answer the question of "what methods of operation and organization can replace the traditional socialist economic pattern?" This is a condition for experiment that neither the Soviet Union nor Eastern Europe is provided with; therefore, we Chinese reformers should particularly treasure it.

II. Layout and Changes in the Structure of Rural Non-Agricultural Industry

12. The practice in the past few years has proved that there has been a trend of quick changes and diversification in the development of rural non-agricultural industry.

The degree of the change in structure can be measured by the "value of structural change." ("Value of structural change" is an index that is used to show the degree of the change in structure. It is calculated as follows: First, we calculate the absolute difference between the structural ratio of the period concerned and that of the base period and then we add up all these differences. (p 38 of Footnote 11) We should define agricultural and non agricultural industry--the two major sectors of rural gross social products (or gross income) as the first level of the structure of undertakings in our rural areas. According to a calculation based on the statistics vailable, from 1979 to 1984, the value of structural change for this level of undertaking in our country's rural areas was 46 percent; while the rural gross social products rose by 132 percent in the same period.

13. The industry, communications and transport, construction and commerce, and service trade in rural non-agricultural industry is defined as the second

level of rural structure of undertakings. The internal structure and change in rural non-agricultural industry are shown in Table 3:

Table 3. Changes in Structure of Rural Non-Agricultural Industry

	Income from non-agricultural industry					
	Amount (million yuan)			Percentage		
Sector	1979	1984	1985	1979	1984	1985
Industry	37,218	97,215	143,267	82.2	70.4	71.2
Communications and transport	2,299	8,603	10,612	5.1	6.2	5.3
Construction	3,499	17,654	26,065	7.7	12.8	13.0
Commerce and service trade	2,247	14,585	21,150	5.0	10.6	10.5
Total	45,263	138,057	201,094	100.0	100.0	100.0

	Employment in non-agricultural industry					
	Number (hundreds of people)			Percentage		
Sector	1979	1984	1985	1979	1984	1985
Industry	181,438	287,695	312,647	76.4	67.5	68.3
Communications and transport	11,689	24,137	22,529	4.9	5.7	4.9
Construction	29,845	77,128	87,368	12.6	18.1	19.1
Commerce and service trade	14,661	37,512	35,210	6.1	8.7	7.6
Total	237,633	426,472	457,754	100.0	100.0	100.0

Sources of data: (Footnotes 7, 8, 9, 1, 2).
Figures for 1984-1985 take into account the income and employment of the non-agricultural enterprises of various kinds at and below village level including those run by households independently or jointly.

In the 6 years, in the rural non-agricultural sector, the amount of income from industry rose by 280 percent, but its percentage dropped by 11 percent. Of the other three sectors, the amount of income in construction rose by 640 percent, that in commerce and service trade rose by 840 percent, and that in communications and transport rose by 360 percent; while their percentages, respectively, rose by 5.3, 5.5, and 0.2 percent. This quick growth of rural construction, commerce and service trade, and communications reflected the fact that these sectors are more closely geared to the demand related to the development of the commodity economy in our rural areas themselves.

The above changes in the structure of non-agricultural industry make it easier for peasants to find jobs in their native areas. An analysis of the value of the growth elasticity reveals that for each unit increase in rural non-agricultural income, there is 0.25 in the employment in rural industry, 0.26 unit of the increase in the employment in rural communications and transport undertaking, 0.3 unit increase in the employment in construction, and 0.17 unit of increase in the employment in commerce and service trade. The difference between the value of employment elasticity in various major sectors tends to decrease. This shows that there is a strong motive force to employ more people in the development of the non-agricultural industry in our country's rural areas.

From 1979 to 1984, in terms of income, the value of structural change at the second level of rural undertakings was 22 percent, but in terms of employment, it was 16 percent. They were both lower than the respective figures for that at the first level. This is worth noting.

14. The structure of each section in rural non-agricultural industry is the third level of the structure of rural undertakings. As our sources of data are limited, we will focus on discussing the structure in the various sections in rural industry. (Refer to Table 4)

Table 4. Changes in the Structure of 15 Rural Industrial Sections From 1980 to 1985 (percentage)

	Output value structure			Employment structure		
Section	1980	1984	1985	1980	1984	1985
Total	100.00	100.00	100.00	100.00	100.00	100.00
Metallurgical	2.30	2.74	3.37	1.90	2.00	2.53
Electric power	0.60	0.41	0.35	0.90	0.50	0.47
Coal and coke	4.60	4.41	3.85	5.50	5.60	5.56
Petroleum	0.10	0.08	0.12	0.10	--	0.05
Chemical	8.40	8.59	8.43	5.50	6.60	6.40
Machine building	29.10	23.62	25.53	25.00	17.40	17.32
Building materials	19.60	20.89	18.89	27.20	28.10	29.85
Forest industry	2.90	2.25	2.95	3.20	2.40	3.48
Food	7.10	8.52	7.87	5.40	8.40	7.80
Textile	8.70	10.57	12.51	6.10	7.00	7.65
Sewing	3.90	4.03	3.67	4.10	4.50	4.68
Leather	1.70	1.31	1.59	1.50	1.40	1.73
Paper	1.40	1.40	2.39	1.50	1.20	2.08
Industry of cultural and educational goods	2.20	2.85	3.04	3.00	4.90	4.52
Other industries	7.40	8.33	5.44	9.10	10.00	5.88

Sources of data: (Footnotes 7, 8, and 2)

In terms of the percentage in total output value, in 1985, rural machine building industry ranked first, accounting for over one-fourth of the total output value; next was building materials industry, which accounted for 18.9 percent, and the textile industry, which accounted for 12.5 percent. All other sections accounted for less than 10 percent each. The ranking in terms of the structure of employment was first for the building materials industry and second for the machine building industry. They respectively accounted for 29.8 and 17.3 percent of the total and none of the other sections accounted for more than 10 percent. In totality, this order of ranking shows that the structure of output value in our rural industry is quite different from that of employment. This seems to show that in the process of the changes in the structure, there are different rules for the growth of output value and employment in different sections. Roughly, the difference between the percentage of employment in the rural industry is smaller than that between the percentage of output value there.

From Table 4 we can see that the percentage of output value for electric power, coal and coke, machine building, building materials, sewing, leather, and "other industries" dropped in the past few years; while that for metallurgical, forestry, food, textile, and paper industries, and the manufacturing industry for cultural and educational goods rose. The percentage of employment for electric power, machine building, and "other industries" dropped, that for petroleum industry remained unchanged, but that for all others rose. Our calculation shows that from 1979 to 1980 the value of structural change in rural undertakings at the third level was 16.5 percent in terms of output value and 22.7 percent in terms of employment.

15. One of the prominent characteristics in the structure of non-agricultural industry in our country's rural areas is that most of the enterprises are small in scale. In 1979, the average number of employees in all our rural non-agricultural enterprises was 22.93, and in 1985, it rose to 29. If the enterprises run by households independently and jointly and other enterprises were taken into the calculation, then the average number for 1984 was only 10.61 and that for 1985 was only 12.74. It seems that operation on a small scale is very much suited to the conditions of surrounding for the formation of wealth in our rural areas now. This provides a condition for the prosperous development of our township and town enterprises.

However, if we observe the sector separately, line of trade by line of trade, we will see that the average scale in some lines of trade is larger. For example, in 1985, the average number of employees in a rural construction enterprise was 75.6; while that in a rural industrial enterprise was 32.56, of which that of a textile enterprise was 56.7 and that of a metallurgical enterprise was 53.8. From 1984 to 1985, owing to the impact of the tightened macroeconomic control, the average number of employees in our rural industrial enterprises rose from 28.3 to 32.6, and the value of change in the structure of average scale in those 15 sections reached 88.5 percent. This showed that the scale of our rural non-agricultural enterprises can, to a certain extent, respond to the change in environment.

16. In short, the reforms in all three major levels of the structure of rural non-agricultural industry has already been started. This was a fine beginning of far-reaching significance for the development of China's rural areas. At present, what we should look squarely at is that the degree of the change in

the structure of output at different levels is not the same and there is a trend of decline level by level downward: The value of structural change at the first level was 46 percent, that at the second level was 22 percent, and that at the third level was 17.3 percent.

Our further analysis of the statistics reveals that there is a certain relationship between the value of structural change and the rate of increase of the total amount. We have made a correlation analysis of the value of structural changes at the three levels in our rural areas and the corresponding rate of increase of the total amount, in other words, an analysis of the correlation between the rates of increase for rural gross social products, rural non-agricultural output value and rural industrial output value on the basis of the sectional data of 26 provinces, municipalities, and regions (not including Xizang, Shanghai, or Tianjin) for 1979-1984. It reveals that the higher the value of structural change, the greater the correlation coefficient between it and the rate of increase in total amount. (Refer to Table 5) Therefore, the level by level decline in the value of rural structural change enables us to directly draw the conclusion that the correlation with the total economic indexes at the three levels weakens level by level, and that there is no clear correlation at the third level.

Table 5. Correlations Between the Value of Rural Structural Change and the Increase in Total Amount

	N	R^2	F
Correlation between the value of structural change at the first level and the change in rural gross social products	26	0.23	7.34
Correlation between the value of structural change at the second level and the change in gross non-agricultural income	26	0.05	1.22
Correlation between the value of structural change at the third level and the increase in rural industrial output value	26	0.03	0.71

N = number of samples; R^2 = correlation coefficient measured; F = value of F test.

The above-mentioned facts show that so far the development of our country's rural non-agricultural industry has only entered at a relatively initial level. If we do not promptly start a structural reform at an even deeper level, then the structural productive forces that we will emancipate will be very much limited. According to the general law that governs division of labor, it is impossible for any kind of industry to develop infinitely without being further developed into sections. The distribution of the non-agricultural resources among the various sectors of industry, communications, construction, and commerce in our rural areas will one day become an important factor in the development of our non-agricultural industry. Similarly, one day the internal substructure of our industry, construction, and so on will also have a decisive impact on the further development of our industry, communications, construction, and commerce.

17. It may be useful to compare with the changes in the structure of rural non-agricultural industry in some other countries. In the 1970's, the proportion of rural non-agricultural employment in some major Asian countries and areas was between 25 and 45 percent. (pp 3-4 of Footnote 13) The percentage for India was 24 percent, that for South Korea was 25 percent, that for Indonesia was 27.7 percent, that for Malaysia was 37 percent, and that for the Philippines was 40 percent. (pp 3-4, 14, 360 of Footnote 13) All these figures did not take into account the seasonal and temporary non-agricultural activities. At least, these countries' proportion of non-agricultural employment at present is 2-18 percent higher than that in our country's rural areas. At the same time, the data of surveys among the rural households in various countries show that non-agricultural income accounts for 25-70 percent of their total income. (p 6 of Footnote 13) This was much higher than the 18.2 percent of net non-agricultural income in the total income of our country's rural households. (p 571 of Footnote 12) Of course, this is not a satisfactory situation. A direct and to some extent major reason for this is that we have failed to fully tap the productive potential deeper in the economic structure of our country's rural areas. For example, except for the manufacturing industry, the existing non-agricultural sectors in China's rural areas are all not so developed as those in other developing countries in Asia. Among them, the construction, communications and transport, and commerce, and other tertiary industries are, respectively, 5.5 and 30 percent lower than those in those countries. (p 37 Footnote 13)

What is very challenging is that the deeper the level of the structural reform, the greater is it related to the change in the structure of our national economy. This is precisely a key link for the further development of our country's rural non-agricultural industry.

III. Similarity of the Degree of Participation and Structure of Our Rural Enterprises

18. Once rural non-agricultural industry becomes independent of agriculture, naturally, it will participate in the activities of the various departments of our national economy. In 1984, our rural non-agricultural output value was 185.24 billion yuan, accounting for 19 percent of the gross non-agricultural output value of the whole society. (Footnote 1, and pp 241 and 20 of Footnote 2); while there were 42,647,000 people employed in the rural non-agricultural industry, accounting for 22 percent of the non-agricultural work force in the whole society (pp 213-214 of Footnote 12).

Viewed section by section, the degree of participation of our rural non-agricultural enterprises (not including the various kinds of non-agricultural enterprises below the village level because no classified statistical data about them are available) in the 17 major industrial sections is shown in Figure 1.

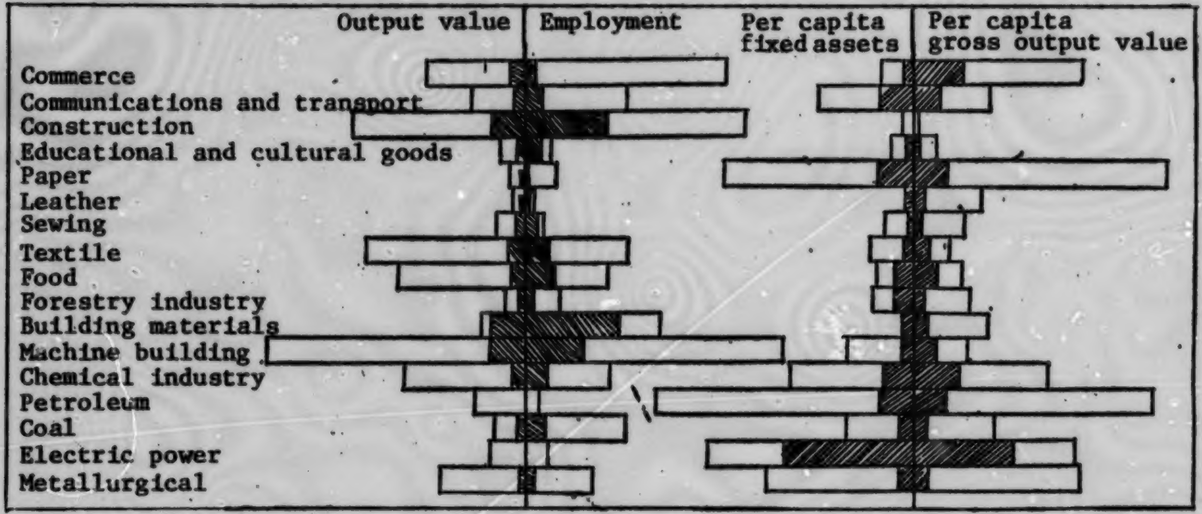

Figure 1. Degree of Participation of Rural Enterprises' in 17 Major Non-Agricultural Sections in 1984

Figure 2. Comparison of Rate of Equipment Between These Sections

Sources of data: (pp 23, 315-316, Footnote 12; pp 10-147 Footnote 8)

▭ The whole society

▨ Rural enterprises

Judging by the composition of output value, except for the section of building materials industry (accounting for 74 percent of the total output value of our building materials industry) the degree of participation by our rural enterprises in other sections is relatively low. It is nearly 25 percent for 3 of the sections (coal, sewing, and leather industries), and is below one-fifth for the other 13 industries. Judging by the employment composition, the degree of participation of our rural enterprises is clearly higher. That of sewing industry is 82 percent, that of building materials industry is 69 percent, that of cultural and educational goods manufacturing industry is 56 percent, that of the construction industry is 46 percent, that of the six industries (chemical, machine building, forestry, food, textile, and paper) is between 20 and 30 percent, and that of other industries is less than one-fifth.

19. Our intuitive impression is that the main difficulty for our rural areas to develop their non-agricultural industry is the lack of funds. Therefore, people generally think that in the sector with a low rate of equipment (in other words, low value of assets per each worker) the degree of participation should be a little higher and vice versa. However, our statistics do not entirely support this view (refer to Figure 2). For example, our construction industry has the lowest per capita fixed assets among all the rural enterprises (in other words the lowest per capita value of fixed assets) but its degree of participation is not the highest. Its degree of participation in terms of

output value and employment, respectively, ranks sixth and fifth among the 17 sectors. Reversely, the section of rural coal mines which has the highest degree of participation in terms of output value (the degree of participation has reached 23 percent) does not have lowest rate of equipment, but ranks seventh in this respect. Despite the very low relative rate of equipment in the rural enterprises in the eight industries including metallurgical, electric power, petroleum, forestry, food, textile, leather, and communications and transport industries (compared with the rate of equipment in the whole society or in the enterprises owned by the whole people), their degree of participation in terms of output value and employment is even lower. Only in four sections, namely, the building materials, sewing, construction, and commercial sections, the degree of participation in terms of output value and employment is actually higher than the relative rate of equipment. In totality, the correlation between the per capita relative rate of equipment and value of fixed assets and the degree of participation in terms of employment is very low (the coefficient R square is equal to 0.000064) and so is the correlation between it and the degree of participation in terms of output value (R square is equal to 0.0128).

20. In other words, rural enterprises do not expand the degree of their participation entirely in accordance with the principle of substituting labor for funds. The degree of participation for each sector of rural undertakings is mainly restricted by the macroeconomic environment around that sector. If the signal of market demand is stronger and the rate of income is higher or if the obstacles to the entry of the sector such as the restriction of the supply of funds, the obstacle related to technology and human obstacles are to some extent reduced, then the degree of participation will be higher and vice versa.

Now, we are going to give an outline of the present situation of some typical rural non-agricultural undertakings by the application of this view and to make an initial estimate of their development prospects.

21. /Mining./ Our country's economy is still far from having entered the stage of development at which it can reduce the intensity of its consumption of mineral materials. As our economy grows, our country's consumption of mineral resources will continue to intensify. Our country has all kinds of mineral products and diverse categories of mineral deposits, which spread everywhere. Most of our mineral ore is not of high grade. All these determine that it is appropriate to use the labor-intensive mining method. However, by 1982, only 0.85 percent of our laborers were engaged in the mining industry. (p 207 of Footnote 12) This was two-thirds below the mining employment percentage (2.5 percent) in the "model of big country" which has a per capita income of $300. (Footnote 19)

In our mining industry, the mining of mineral energy in particular the exploitation of coal resources is of great significance. In 1984, the coal mine owned by the whole people needed 7,042.2 yuan of fixed assets for each of its employees, but a township and town coal mine only needed 20-25 percent of fixed assets for each employee. Therefore a large amount of rural labor could enter this sector. In addition, since 1982, the obstacles to peasants taking part in exploiting coal have been removed gradually. As a result, the output value of township and town coal mines has risen by 17.5 percent a year and the number of employees there has risen by 13.8 percent a year on average. In 1984, rural coal mines turned out one-fourth of the total coal yielded by our country. However, in view of the relatively low ranking (eighth) of the rate of equipment of our rural coal mines, their degree of participation in terms of both output value and employment is still small. This is mainly because they are still far from being fully developed owing to the restriction related to the division of the ownership of resources and limited technology and transport facilities.

22. /Communications and Transport./ In 1984, the output value of our country's communications and transport industry only accounted for 3.8 percent of the gross social output value and its income only accounted for 3.3 percent of the national income. Judging by international experience, this percentage of our transport industry is not high and there is a conspicuous weak point--our road transport. The length of highways opens to traffic in our whole country, the road density in our country and the percentage of road transport in the total volume of our transport and other major indexes are substantially lower than that of the various big countries. This is an inevitable consequence of our previous economic structure and economic system.

The structural reform of our country's communications and transport industry has provided our peasants with a historic opportunity to enter this industry. From 1979 to 1985, the income of rural communications and transport industry rose by 29 percent a year on the average and the employment in this industry rose by 11.6 percent a year on the average. What rose most sharply was the total transport capacity of our roads. Two-thirds of our total mileage of highways is below the normal grade. At the same time, from 1979 to 1984, the number of automobiles rose by 11.2 percent all over our country, that of large- and medium-sized tractors rose by 10.4 percent, but the mileage of highways open to traffic rose only by 1.1 percent a year. China must build roads on a large scale. According to the calculation based on the data from a typical investigation, if it builds 60,000 km of road a year, it will employ 14 million laborers who will directly take part in the work of building the road. This can be regarded as a high employment elasticity.

23. /Construction Industry./ The high growth rate of the construction industry in the past few years (13.4 percent per annum) constitutes one of the major causes for our country to switch onto a new stage of economic growth. At present, the checked proportion of our construction industry in our gross social products is 10-11 percent and this industry yields 8-9 percent of our national income. If the output value of the other industries that directly or indirectly serve the final products of our construction industry is added to it, the proportion will be 25 percent.

In 1984, the relative rate of assets and equipment in our rural construction industrial enterprises ranked 8th in all 17 sections, but its degree of participation in terms of output value and employment, respectively ranked sixth and fifth. This shows that there is a trend of the degree of participation in terms of output value and employment growing relatively quicker than the rate of funds and equipment in our rural construction industry. Perhaps, the expansion of the peasants' demand for housing and the increase of the demand for capital construction resulting from the quick growth of our national economy in the past 2 years is one of the reasons why the rural construction industry has developed quicker than other industries. Another possible reason is that technologically the construction industry itself is more suited to large-scale participation of rural laborers.

From 1979 to 1984, the number of people employed in the township and town construction enterprises all over our country rose 19.6 percent a year on the average and their income rose 39.8 percent a year. Now, there have already been 8,737,000 workers in our township and town construction enterprises, accounting for over 50 percent of the work force of the whole construction industry. If those who are employed in the building materials industry are also taken into account, the work force of rural construction undertaking will have 15.91 million people. It is expected that in the future, the employment growth rate in our construction industry will be 4 to 5.4 percent. This also matches with international experience.

24. /Machine Building Industry./ This is the largest manufacturing industry in our country. It concentratively reflects the success and serious problems of our previous development strategy. at the same time, it has a decisive impact on our future structural reform. From 1952 to 1984, the output value of our country's machine building industry rose by 14.9 percent a year on the average. At present, it yields 25 percent of our gross industrial output value and 24.7 percent of our net industrial output value.

At present the ratio of intermediate demand to final demand in the gross output value of our country's machine building industry is 1.54, quite a high ratio, but the ratio for the "standard structure" with $300 per capita income is 0.6. The output value of livelihood machine products in our country accounts for less than 10 percent of that of our machine building industry. In the sphere of the production of machinery for production, the number of machine tools produced for its own use ranks among the foremost in the world, being two-fifths of that in the United States, two-thirds of that in Japan, and one-half of that in the Soviet Union. However, at the same time, our output of trucks is only one thirty-second that of Japan, one-seventeenth that of the United States, and one-eighth that of the Soviet Union. There is a shortage of some machine building products to meet the demand while there is a serious surplus of our huge machine processing capacity. This is the most outstanding contradiction in the structure of our machine building industry.

As the jobs of processing in the machine building industry is easily divisible and as the work is relatively less continuous in nature, therefore, this is the easiest section of industry for people to enter. According to our calculation, the employment elasticity of our country's machine building industry is 0.44 in the past few years. According to this trend of development by the end of this century, the number of staff and workers in our country's machine building industry will be 60 million, but the annual rate of increase in labor productivity will only be 5 percent. From this we can see that, if we do not radically transform the organizational pattern of our machine building industry, the high employment in our machine building industry may give rise to a chain reaction of low efficiency. This will not only excessively consume our financial, material, and energy resources, but may also hinder the process of the technological transformation of our entire national economy.

Therefore, inevitably, we should weaken the low-level excessive competition in our machine building industry. For this we should not hesitate to lower the employment elasticity of our machine building industry. This may have some unfavorable impact on our township and town machine building industry. However, the technological divisibility of the machine building industry and the great shortage of funds in the process of the large-scale reorganization of our country's machine building industry will bring some new hope for our township and town industry. According to our general forecast, the growth elasticity of our country's machine building industry will continue to be larger than one and the annual growth rate will still be maintained at 8 to 9 percent.

If the small machine processing enterprises formed by the population of relatively low income in China can play the role like that now played by those in Japan and India, then within this century the machine building industry run by the rural population that flows into this industry will yield a half of the total output value of this industry in our country and employ 60-70 percent of the labor force in it. (Footnote 15)

25. /Food Industry./ Although the food industry ranks third among all the sections of industry in our country, it is fairly backward. The output value of the food industry is only 30 percent the output value of our agriculture (after deducting the output value of the industry run by production teams); and less than 40 percent of the food consumed by our people has been processed by our food industry. In our food industry, the output value of the primary processing of grain, oil, salt, and sugar and the production of alcoholic, tobacco, and other products that people become addicted to, account for 75 percent of that of the whole food industry. Only 25 percent of the work is intensive and deep processing. These indexes are all backward compared with other countries of the same income group. An analysis of the prospects of the demand for this industry's products reveals that except for grain all major food is highly income elastic. According to international data, at the period when the per capita GNP is $600-900 (at its 1981 value), the income elasticity of food, drinks, and cigarettes can still be 1.72 and this elasticity will not drop substantially until the medium- and high-income periods come. Therefore, undoubtedly, the food industry will be one of the major production sectors that will continue to develop quicker than the increase in income.

At present, the rate of fixed assets and equipment in our state-owned food industry (7,962 yuan per capita) is lower than the average of 13 industrial sections, but the total amount of profit delivery and tax payments of the whole industry and the per laborer labor productivity in this industry ranks second among all the industrial sections. Therefore, it is very attractive for township and town enterprises.

However, the high efficiency in our food industry is only because of the contribution of a small number of lines of trade in it which earn high profits and pay high taxes. For example, in 1983, the profit delivery and taxes contributed by the lines of trade such as ciagarettes, alcohol, salt, and sugar, accounted for 82 percent of the total profit delivery and tax payments of our food industry. Therefore, our rural food industry is basically characterized by the out of control growth of cigarette, alcohol, and sugar factories, and the underdevelopment of other lines of the food industry. Although the per capita amount of fixed assets (3,500 yuan) in our township and town food industry is only 44 percent of that in our state-owned food industry, and although this theoretically provides a great possibility for substituting labor for funds, our township and town food industry only yields 10 percent of the gross output value of the food industry of the whole nation, a very low percentage.

26. /Textile Industry./ Generally speaking, the world textile industry is declining from its position as the industry that lays the foundation of industrial civilization and is becoming a "sunset industry." From 1952 to 1983, there was also a trend of decline in the output value and employment of our textile industry as a percentage of our whole industry. However, our textile industry remains the second largest industry in our country. An analysis of its prospects, taking into consideration diverse factors including domestic demand and exports, reveals that both the income and employment elasticity of our country's textile industry will be lower than one. This means that from the point of view of the total amount of output value, our textile industry will no longer have substantial impact on the reform of the production structure of our national economy.

However, the internal structure and the product mix of our textile industry will substantially change. At present the product mix of our textile industry fails to meet market demand and this has already become a serious problem.

Over the past few years, our rural textile industry has grown at an excessively high rate. From 1979 to 1984, the output value of the textile industry run by townships rose by 40.6 percent per annum and its number of employees rose by 23 percent per annum. Roughly, when the output value of the textile industry of the whole nation grows by 1 percent, that of the textile industry run by townships grows by 3.12 percent. At present, our township and town textile industry yields only 9 percent of that of the textile industry of the whole nation and employs only 22 percent of the total work force. Nevertheless, the degree of participation of our township and town textile industry is only higher than food, metallurgical, electric power, and petroleum industries. As the labor and material costs in large-scale textile industry have risen sharply in the past few years, it is no longer profitable to continue to produce many textile goods in large cities. If we first carry out a reform in the labor system of our textile industrial enterprises and orderly transfer more traditional textile industry to our rural areas and at the same time, if we allow and organize the township and town textile industrial enterprises provided with necessary conditions to take part in the processing of some textile goods of high grade, we will help the development of intensive operation in our textile industry.

27. The situation in all these typical sections shows that our rural non-agricultural industry has not created nor is it possible for it to create a foundation for its own structural change in isolation from the overall environment of our national economy. This can explain the question of why, despite the great difference between the initial conditions for the establishment of our rural non-agricultural enterprises and those for the large-scale industry in our cities, //the structure of our rural non-agricultural industry is amazingly similar to the non-agricultural structure of our national economy.// In 1984, the similarity coefficient ("similarity coefficient" can be expressed by the formula: $S_{ij} = (\Sigma_n X_{in} X_{jn})/(\Sigma_n X^2{}_{in} \Sigma_n X^2{}_{jn})^{\frac{1}{2}}$. In this formula X_{in} and X_{jn} are the percentage of Structure No i and Structure No j in sector No n. The value of the coefficient ranges between 0 and 1. If the value of the coefficient is 1, the two kinds of structure are identical, if it is 0, there is no similarity between the two kinds of structure. (p 90 of the book of Footnote 14)) between the output value mix of our rural industry, communications and transport, construction, and tertiary industry, and that of the same four major industries of the state-owned and urban collective sectors in 1984 was 0.988, a very high value; and that between the output value mix of the 14 sections in rural industry and the output value mix of the 14 sections of the industry of the whole country was also high, being 0.721, the 8 heavy industrial sections of the 2 sectors have a similarity of 0.793 while the 6 light industrial sections of the two sectors have a similarity of 0.929. Because of this high similarity in structure, the criticism that the structure of undertakings in our national economy is very poor in harmony is also true for the structure of our rural non-agricultural industry. Moreover, as our rural non-agricultural economy takes part in the operation of our national economy, it to some extent aggravates the contradiction between supply and demand in the transition period.

At present, the problem that we are to the least extent allowed to evade is the emergence of some portent of "excessive participation" when the transfer of our peasants into non-agricultural sector is far from being adequate. This is mainly shown as follows: 1) The methods of exploitation characterized by low efficiency and high consumption are widely adopted in the mining industry and the malpractice of excessively undermining our resources and the trend of external waste are rising. 2) In the manufacturing industry, there is not only an excessive competition between buyers of input goods in short supply (such as the competition in heavy manufacturing industry), but also a widespread excessive marketing competition for low-level products (such as that in our light manufacturing industry). As rural processing industry develops in a widespread manner in various areas, the excessive competition is increasingly greatly spreading inside our township and town industrial sector. 3) The growth of the capacity of the communications and transport industry relatively exceeds our road capacity. 4) The number of the teams in the construction industry that can formally undertake the construction projects of accepted standard is too small. According to our estimate, they only account for 8 to 10 percent of our rural construction teams. 5) In the commerce and service trade, on the one hand, there is a saturation of those who are engaged in commerce in small towns and cities, in particular, there are too many people engaged in the sales of commodities with a high profit rate (such as garments and electric appliances); but on the other hand, the development of comprehensive commerce and other service trades is inadequate and the transfer of low-income population to the commercial sector has particularly failed to play a substantial role in lowering the commercial circulation expense in our large cities.

All the above has caused the ratio of net output value to gross output value in our township and town non-agricultural enterprises to remain at a relatively low level. In 1984, the ratio of net to gross output value in our rural industry was between 0.24 (for sewing industry) and 0.56 (for the coal industry). This was very close to that in our enterprises owned by the whole people and in our collective enterprises where the rate of equipment was higher (the ratios of the former to those of the latter sector are 0.8-1.20). This shows that in spite of the low organic composition of the input in our rural enterprises, because of various other factors of low economic results, no corresponding high ratio of net to gross output value is obtained.

29. From the above analysis, we can draw the following conclusion: The quick development of township and town enterprises in our country in the past few years has shown the necessity and possibility of the large-scale transfer of our peasants to non-agricultural industry, but judging by the changes that have already taken place, the structural reform has only just begun. The structural contradiction between "insufficiency" and "surplus" in the process of our peasants' transfer to the non-agricultural industry shows that while our country wants to transfer a large number of laboring population to the non-agricultural sector and has a strong urge to do that, the spheres that are easy to enter for our peasants are not wide. If we fail to transform the overall environment of our national economy and if we fail to continue to reform the system and organization of our non-agricultural industry to help peasants enter this industry, then the continuously increasing rural population that has left the land will only be able to stay in the spheres of industry that are easy for them to enter. In this increasingly narrower sphere, there will be even more fierce competition for natural resources, input goods and market of products, which will aggravate the excessive and low-grade competition. This will be detrimental to the further development of rural non-agricultural industry. As the all-round reform of the structure of our national economy is put on the order of the day, there will also be profound changes in our township and town enterprises. In order to smoothly finish this transformation, we must free ourselves from the limitation of the simple and opposite thinking methods that are focused on the question of "whether the development of township and town enterprises is very satisfactory or very bad" and we should first look squarely at the series of new problems raised by the development of our country's non-agricultural industry and find new methods to solve them in the changing overall environment.

IV. Several Problems That Should Be Solved in Deepening the Reform of the Structure of Undertakings in Our Rural Areas

/The first problem is how we are to develop even more diversified patterns for peasants to transfer to non-agricultural industry./

30. Owing to the historical conditions such as the separation between our urban and rural areas, since the 1960's, the major pattern for the peasants in our country to enter non-agricultural sector has been the establishment of the enterprises owned by the communes and brigades to exploit and utilize various kinds of local non-agricultural resources within the scope of the communes and brigades concerned. This uniform pattern of entry is an important reason for the emergence of "excessive and low-grade competition." As the reform of the implementation of the contract responsibility system with remuneration linked with output deepens, the patterns for peasants' entry of the non-agricultural sector has also changed. What is most worth noting is that some peasant enterprises have already begun to break the narrow boundary of their villages and townships and strived to optimize their investment orientation, internal and external economy of scale and layout of enterprises in an even greater scope.

Major new patterns of entry are: 1) the diverse forms of combined enterprises with joint funds, technology or labor between peasants of different areas beyond the boundary of their villages and townships; 2) various kinds of township and town enterprises with independent ownership have, to a various extent, taken part in the lateral cooperation with large- and medium-sized state-owned enterprises and other urban enterprises as the cores and thus become relatively stable specialized contractors in producing parts and components or in carrying out certain production processes; and 3) through state-owned enterprises, our government has established frameworks of enterprises of development nature (in other words, it assigns the leaders and technological and management cadres of the enterprises) and then recruits peasants as contract workers to form actual entities of enterprises.

At present, we have not yet been entirely clear about the distribution of the various new patterns in various industries and areas. Judging by the existing survey data, we can already see that the new patterns of entry only constitute a relatively small proportion of the township and town enterprises in the whole country and are very unstable. However, we can also see that after all these new patterns of entry that are different from the pattern of "establishing and running enterprises by the village and township itself," has pointed out a possible orientation of development that can fully exploit our country's non-agricultural economic resources under the condition of boundless supply of labor and that can at the same time avoid low-grade excessive competition.

31. The key to renewing the patterns of entry is the way to carry out a rational division of labor between rural non-agricultural industry and the existing urban industrial system. The previous guiding principles (from the principle of "utilizing three local resources" and that of focusing on processing agricultural and sideline products") principally embody the idea of //carrying out a division of labor among urban and rural large, medium-sized and small enterprises in terms of products.// However, in the practice in the past few years, some new trends have emerged to begin to embody the new principle of conducting division of labor //in terms of the processing stages of products.// In many industries, when products are at different stages of processing, the technology, funds, and management required and the external economic requirements differ greatly. If we more purposefully deal with the

difference in these requirements in the process of division of labor, then it will be possible for us to provide more opportunities for low-income population to enter the non-agricultural industry than we can by indiscriminately adopting the method of division of labor in terms of products and also to achieve better economic results in this industry as a whole. For example, we have mentioned above that it is not only a must but also a very urgent task for us to reduce the low-grade excessive competition in our machine-building industry. However, the intensification of the product mix of our machine-building industry will usually cause our links of processing and number of assembly processes to increase and thus further heighten the technological divisibility of that industry. In the well-known "No 2 Automobile" Enterprise Group, in addition to its 148 factories of combined operation, there are also over 1,000 township and town machine building enterprises that cooperate with the 148 factories. Most of these enterprises are specialized in producing certain spacers, nuts or components for automobiles. The "Standard" Sewing Machine Group in Shaanxi and the "Bailan Brand" Washing Machine Group in Beijing also follow this principle. They all prove that while resolutely closing and suspending the production of a number of backward small and all-inclusive factories that produce assembled machines, we should reorganize the machine building industry in order to specialize the production. The characteristics of our township and town machine building enterprises such as the small scale, widespread layout, and low labor costs will continue to be the favorable conditions for peasants to more greatly taking part in machine building industry through participating in one or more stages of process.

32. China particularly needs to study and utilize the technological and organizational trend in modern industry of contracting production, a trend that is rising again now. Contracting production means that large industrial companies rely on small labor-intensive enterprises for the manufacture of parts and components and for the carrying out of various kinds of processing and then produce "their own" products. In 1971, 57.9 percent of all the small manufacturing enterprises in Japan were contractors, whose output accounted for 17 percent of the gross output of large manufacturing enterprises. Since 1956, the Indian Government has adopted measures to ensure that small enterprises can become contractors for large factories. By 1973, the number of registered small enterprises totaled 400,000 and their output value accounted for 50 percent of the gross industrial output value. In Poland, particularly in its central and eastern areas where there is surplus labor, the government hopes that it will industrialize these areas by means of establishing long-term contracting relations between large and small enterprises. The Chilean Government has even compelled people to contract production--it has promulgated laws stipulating that the production of certain products must be contracted in order to solve employment problems and the problem of social inequality in income. (Footnote 15) As small industrial enterprises incur less cost in providing a job opportunity and as their per investment output is higher, when small and large enterprises cooperate with each other organically, they will offset each other's technological and management weak points.

The new principle of division of labor provides a new hope for coordinating the heightening of the additional value and the expansion of employment in our manufacturing industry. In contrast, the outstanding problem related to the structure of scale of our country's industrial enterprises is not the excessive large number of small enterprises (p 40 of Footnote 16) but the wrong principle of division of labor between large and medium-sized enterprises and small enterprises. Over the past few years we have gained experience in carrying out division of labor between urban large and medium-sized enterprises and rural small enterprises through lateral cooperation in contracting production processes. This provides a clue to the basic way to solve this problem.

/The second problem is to deepen the reform in the property relationships in our township and town enterprises./

33. We should change the principle on the system for peasants to take part in social division of labor to expand the efficient transfer to the non-agricultural sector. This, in fact, requires us to heighten the degree of socialization for the transfer, movement, and reorganization of the various economic factors in our rural areas. This has raised a demand for the deepening of the reform in rural economic relations and economic systems.

The principal part of our township and town enterprises is former commune and brigade enterprises. A series of historical conditions have determined that their property relations are inherently subordinate to land and regional administrative systems. Their typical pattern is that they rely for their establishment on the public accumulation of funds of their communes and brigades and they are owned by brigades in communes or by communes which are the principal entities and each of which is both a government administrative and an economic entity. In this pattern, the enterprises do not have full decision-making power over their own operation and cannot independently respond to changes in the market. The remuneration for labor and investment is not closely linked with the direct operational results of the enterprises. Naturally, these restrictive factors become what will mainly be reformed in deepening the structural reform.

However, technically, it is utterly unsuitable to assign by contract the responsibility for the property of an enterprise equally among all the people, whether among all the members of the collective that own the enterprise--theoretically this means all the members of the brigade or commune concerned--or among all the members of the enterprise. Only when we find an interested party to be in charge of the management of this property that cannot be divided equally can we actually achieve the separation between the ownership and the power of management over the enterprise.

34. As a result, various kinds of the system of assigning management responsibility to factory director (manager) emerged as the times require. The key difficulty that emerged immediately after the emergence of the above-mentioned system is how we are to accurately estimate the contribution of the enterprise's assets in creating wealth in the process of the contracted operation and thus make a distinction between the contribution by assets and that by labor in the process of distribution and actually achieve the separation

of the power of ownership over the assets of the enterprise and that over the management. However, it is precisely the accurate estimate of the contribution by the assets that is extremely difficult. When there is no capital market, the nature of this difficulty is by no means merely technical. From 1983 to 1984, disputes occurred in many commune and brigade enterprises at the time when the responsibility contracts were to be actually executed. The main reasons for the disputes were excessively high and low estimates of the value of the assets when the responsibility contracts were signed. When we assigned equally responsibility for land by contract, we quietly evaded this conflict, but we could no longer evade it when we unequally assigned responsibility by contract for the management of enterprises. It is not difficult to understand that after the responsibility is assigned there are three interested parties in a commune or brigade enterprise: 1) all the commune members who are the owners of the property in the commune or brigade enterprise; 2) the employees in the enterprise (including factory director or manager) who have dual status, being both members of the owner group and members of manager and laborer group of the enterprise; and 3) the managers and laborers who are merely managers and laborers and who do not enjoy the rights of ownership over the enterprise including the factory director, managers and workers employed by the enterprise. Among these three interested parties, there are not only relations concerning the distribution of the results of each production process, but also the relations concerning the distribution of the results of reproduction and reinvestment (in other words, the assets and income therefrom that emerge in the period when the responsibility for management is assigned by contract). Any confusion of the demarcation line between the income from the labor of management assigned by contract and the income from the assets may cause encroachment on the economic rights and interests of a certain interested party and make the distribution unacceptable for all the parties.

35. The contradiction in economic interests has roused people to find an appropriate way to solve this contradiction. As far back as around 1980, some communes and brigades in Jiangsu, Gansu, Shaanxi, and other provinces began to introduce the corporation system in assigning responsibility for the management of the enterprises by contract. Local people thought that this was a proper method to solve the problem related to unequal assigning of management responsibility by contract. The budding rural corporation economy is, of course, far from being mature, but after all, it initiated the various methods to calculate the assets of an enterprise by simulating market evaluation (evaluation by referring to bank interest rate, by parameters gained by experience, by expected profits, or by inviting tenders). After all this provides a useful method for maintaining the harmony in the interest relations at many levels in our commune and brigade enterprises and the scale of the property there. By the end of 1984, a fairly large proportion of commune and brigade enterprises in Henan, Shanxi, Shaanxi, Gansu, Shandong, and Anhui Provinces have established the corporation system. In various southern provinces, the method of raising funds among the masses of people by "issuing shares and paying dividends" has become generally accepted.

36. The deepening of the reform in the property relations in our rural enterprises is restricted by our macroeconomic situation. What is worth discussing

is that as the motive of agricultural investment weakens, the form of "microeconomic readjustment" of commune and brigade enterprises subsidizing agriculture by their profits has attracted the attention and been confirmed by the society from a higher plane. This has strengthened the direct subordinate relations of the assets of the enterprises to land. According to most recent statistics, in 1985, 50-70 percent of the after-tax profits earned by the rural enterprises all over our country had to be delivered to the owners in various forms (Footnote 2). This in fact exceeded the share that the owners of the assets ought to get. It was not only an encroachment on the economic rights and interests of the party to which responsibility of management is assigned by contract, but will also cause the enterprises to lack self-transformation capacity. The inertia to maintain these enterprises subordinate to regional government administrative power makes it impossible for our existing commune and brigade enterprises to become the center for new growth in the assets of rural non-agricultural enterprises in spite of the fact that these enterprises have already had certain technological and economic scale. In 1984, the number pf peasants' individual enterprises and new combined enterprises among the township and town enterprises all over the country reached 4.41 million, accounting for 72.8 percent of the total; and in 1985, it further rose to 9.24 million, accounting for 84.5 percent. A comparison of the increase in output value shows that in 1985, the output value of our rural enterprises rose by 29.8 percent, but that of individual and combined enterprises rose by 124.2 percent (Footnote 2). The latter is becoming the principal form of the asset relations in our township and town enterprises. It is worth deep research into the question of what impact these enterprises will have on our entire rural reform and on the macroeconomic management of our national economy.

/The third problem is to play to the full the impetus of money./

37. Among the various macroeconomic factors that affect the development of our township and town enterprises, the role of money is greatly strengthened. In the past, the major way for our country to employ rural surplus labor is the system of voluntary labor. In 1980, the value of the peasants' animate labor that was directly turned into farmland water conservation facilities, forests, houses, and so on, without exchange of commodities was 5.5-7 billion yuan in all, accounting for 1.6-2.1 percent of the national income and 5-6 percent of the accumulation of funds for the year and being 20 yuan on average for each peasant. (p 106 of Footnote 17) In the process of the emergence of the assets of our commune and brigade enterprises, peasants' unpaid labor accounts for a fairly large percent.

However, the development of the commodity economy makes the trend of paying charges for labor an irreversible one. From 1979-1980, there was a reduction in the scale of the construction of infrastructure and water conservation facilities for our farm land. One of the reasons for that was that we lacked money to pay for the labor which was provided free by people in the past. But in the same period, the scale of housing construction and afforestation in our rural areas grew quickly. This was to a great extent owing to the rise of the practice of paying wages for labor. The full development of our township and town will also to a great extent depend on whether we can raise enough funds in the form of money. In the 1979-1980 fiscal year, every yuan of loans from banks and credit cooperatives caused the gross income of our township and town enterprises to rise by 5.08 yuan, the figure was 5.29 yuan for 1980-1981, 8.50 yuan for 1981-1982, and 9.79 yuan for 1982-1983. (Footnotes 7 and 8) The short-term impetus given by money was so clear that it could not help but stimulate the increase of our township and town enterprises' demand for credit and loans. In short, compared with land and labor, money has become much more important in the reorganization of our rural production factors.

An analysis of the environment as a whole shows that there is a huge amount of idle resources (principally labor but also equipment and other resources) and at the same time there is also a strong demand for consumption and investment in our society. Under these circumstances, even if we increase the net volume of the money in circulation, in theory it will not certainly lead to uncontrollable inflation. The increase in money supply can utilize the idle resources and thus quickly give rise to increase in supply, which will provide conditions for withdrawing the money issued. The difficulty is that before the supply emerges, there will be a heavy pressure of inflation. This may become a force of decontrol that will further aggravate market situation, in particular, under the background of a serious structural contradiction in our market. This is why we cannot indiscriminately exploit the effect of the increase in money. The fluctuation in our national economy in the latter half of 1984 reminded us that we could by no means overlook that.

38. However, it is impossible for us to return to the era in which we could transfer accumulation of labor merely by administrative orders. Therefore, it has become an important issue how we can give full play to the role of money in promoting the development of our rural economy and thus meet the demand for stabilizing our market by means of substituting labor for other resources on an even larger scale.

In fact, in the past few years, the rate of increase in the cash income of our rural residents was greater than that of our urban residents (it is difficult to sustain this trend), therefore, from the point of view of total quantitative balance, it seems that the increase in our rural residents' cash income has a greater impact on the "expansion of total demand." But it is relatively safe to increase our money supply in rural areas. In addition to the reason mentioned in the first section of this report that it is easier for domestic production system to satisfy the demand for consumer goods resulting from peasants' purchasing power, there are the following reasons: First, the cash expenditure of our rural residents consists of their investment in production and housing construction; therefore, the pressure on market is not so concentrated. Second, as our peasants have to undertake greater risk and generally enjoy a low level of social welfare, they have a strong tendency towards savings. According to the calculation based on the data of a sampling survey by the State Statistical Bureau, the average propensity of saving among our country's urban people was 13.1 percent on the average from 1982 to 1984 and their marginal rate of savings was 29.1 percent, but those for our rural residents were, respectively, 20.6 and 37.1 percent. After deduction of the housing expenditure from their consumption expenditure and adding it to their savings, the marginal saving propensity in our rural areas would be higher than 50 percent, much higher than that in our urban area. (pp 565, 572 of Footnote 12) A functional analysis reveals that this portion of their savings can very hardly be regarded as "surplus purchasing power" and it is impossible for it to become a random crashing force on our market. And third, the speed of money circulation in our rural areas is low. According to a calculation based on relative data, it is only one-third of that in our urban areas.

Therefore, we have full reasons that our rural areas can become a huge experiment site for giving full play to the role of money in promoting the economy. The tight money policy in 1985 has already yielded an objective consequence of shortage of money. //Losing no time in switching the role of money from mainly promoting the quantitative expansion of our rural non-agricultural industry into mainly promoting the qualitative improvement of the industry (including the methods to utilize resources, efficiency, orientation of injection, and speed of money circulation)// should become a basic orientation for the deepening of the reform in our rural financial system.

/The fourth problem is that we should straighten out in an all-round manner the economic environment for the growth of our undertakings./

39. The more we view our rural structural reform in the light of its significance for the whole situation, the less can we be divorced from the environment of our national economy in doing the work of straightening it out. An analysis of the growth elasticity of the major national economic sectors from 1979 to 1984 reveals that if the growth elasticity of the various sectors is maintained unchanged in the near future, then calculated at an annual average GNP growth rate of 6 percent, 15 years later, manufacturing industry will account for 70.7 percent of the total of our country's non-agricultural sector, infrastructure industry will account for 24.7 percent and commerce will account for 4.6 percent. Obviously the national economy will be even more lopsided. Therefore, the problem of how to guide the orientation of the development of our undertakings cannot be evaded.

In this sphere, there is much existing international experience. For example, Japan clearly raised the issue of guiding the direction of the development of undertakings on its own accord and regarded it as an issue of strategic significance. It has thus scored a success known to all people. The well-known basic principle of income elasticity and productivity increase is regarded as the basic principle to plan and guide the development of its undertakings. This has yielded a huge impact on Japan and a number of other countries and areas which have risen quickly after World War II. (Footnote 18) However, all these countries referred to the parameters of international trade rather than the parameters in the domestic market in their countries at that time in deciding which sectors had to be selected as strategic sectors because of their high income and productivity elasticities. This conformed to their strategy of "relying on trade for the development of their countries."

It is difficult for our country to entirely follow their examples. As for a long time, our domestic market will be the major part of market for our country, we should mainly gather the information for guiding our industries from our domestic market. However, it was precisely because the excessive low level of development of our domestic market, its incomplete price mechanism and market rules and the unsatisfactory organization of various kinds of market that continued to cause our domestic market to give distorted signals to guide the development of our industries. Without reliable figures, it is, of course, impossible to use the pithy principle of income elasticity and productivity increase to accurately select the principal industry. Therefore, a deep reform in our market structure and market behaviors becomes the key task and logic precondition for our country in formulating its policies toward various industries. Of course, it is impossible for China to obtain a fully developed market and carry out intervention with foresight at one stroke. As a process of transition (in other words, a process of study), it is perhaps appropriate to develop a few procedures for the making of the decisions on the direction to guide our industries by applying the idea of procedural rationality (rather than essential rationality).

40. Through this survey of our industries, we put forward the following procedures for the selection of industries for discussion: The first step, a survey about the income elasticity of major products; the second step, we should remove the elements of errors in the value of the elasticity; the third step, we should compare it with the value of income elasticity of country groups of different income; the fourth step, we should make a survey of the forward and backward chain reaction of our major industries; the fifth step, we should compare this degree of the reaction with that of the relevant industries in other countries under the comparison; the sixth step, we should make an investigation of the "bottleneck" of our resources and make a shadow evaluation of the prices of the resources; the seventh step, we should investigate the employment elasticity and potential of the major industries; the eighth step, we should estimate the opportunity cost of the various investment orientation; the ninth step; we should take into consideration the income distribution elasticity, the capacity of the industries to take along the development of other industries, the restriction of resources, and employment elasticity, calculate their weight in making calculation to decide our selection, take into account also the factors concerning the standard of the quality of our livelihood and our lifestyle and thus make judgment and choice on the basis of the information mentioned above; and the tenth step, we will definitely choose our principal industries. According to these procedures, we hold: we should continue to increase our rural areas' participation in the mining industry, construction of roads, construction of infrastructure, construction industry, and the food industry; while we should quicken the readjustment in our rural areas' machine building, textile, and sewing industries in order to meet the new principle of division of labor.

Through implementing these procedures for the making of the decisions on the selection of the direction to guide the development of our industries and through repeated readjustment and experiments, we will make our urban and rural economic policy makers at various levels exchange their information and the value of the variables that affect their choice of direction and thus enable them to jointly improve their ability to adapt themselves to and understand the deepened relationships in our market. This will certainly play a positive and far-reaching role in facilitating the transition of the direction of the development of the composition of our industries toward a more harmonized direction.

First draft version completed in January 1966
Revised in March 1986

FOOTNOTES

1. Zhou Qiren, Chen Xiwen, and Bai Bansheng: "Consolidation and Development of Township and Town Enterprises," RENMIN RIBAO, 4 October 1985.

2. "New Development of the Township and Town Enterprises in Our Country," JINGJI CANKAO, 25 February 1986.

3. "Figures of the Great Successes Since the Third Plenary Session of the CPC Central Committee," 1984 version of the Archives Publishing House.

4. The State Statistical Bureau: "Statistics About Trade and Prices of Goods in China,"1984 version of the Statistic Publishing House.

5. The State Statistics Bureau: "Monthly Statistical Report," No 5, 1986.

6. The State Statistics Bureau: "Communique on Statistics for National Economic and Social Development in 1985," RENMIN RIBAO, 1 March 1986.

7. The Ministry of Agriculture, Animal Husbandry, and Fishery: "Statistics on Commune and Brigade Enterprises (1978-1983)."

8. The Ministry of Agriculture, Animal Husbandry, and Fishery: "Statistics on Township and Town Enterprises (1984)."

9. Rural Statistic Department of the State Statistics Bureau: "Survey Data Related to Rural New Economic Combines and Specialized Households."

10. "China's Economic Structural Changes, Growth Possibilities, and Schemes To Select," by the Meteology Publishing House, 1985.

11. Kim Yingji of South Korea: "Changes in Structure of Undertakings and Science and Technology," JINGJIXUE YICONG, issue No 2, 1981.

12. The State Statistical Bureau: "China Statistical Annals (1985)."

13. "Development of Rural Non-Agricultural Industry: Asian Experience and China's Prospects," published by the Meteology Publishing House in 1985.

14. "Brief Accounts and Trend of the Industrialization in Various Countries in the World," China External Translation Publishing House, 1980.

15. UN Industrial Development Organization: "Contracting Production and Its Role in Economic Modernization," Machine Building Industry Publishing House, 1981.

16. World Bank's 1984 Economic Inspection Group: "China, Problems and Plans for Long-Term Development (Main Report)," China Financial and Economic Publishing House, 1984.

17. Liang Wensen and Tian Jianghai: "A Few Issues Concerning Accumulation," 1983 issue No 1 of ZHONGGUO SHEHUI KEXUE [CHINESE SOCIAL SCIENCES].

18. Yang Zhi: "Introduction to Economics of Industries," Chinese People's University Publishing House, 1985.

19. H. Chenery and M. Syrquin: "Development Model 1950-1970."

/Author's Remarks: The Institute of Development Research was established on the foundation of the Research Group on China's Rural Development and continues to be directly under the Rural Policy Research Office of the Secretariat of the CPC Central Committee and the Rural Development Research Center of the State Council.

Taking part in this research are: Zhou Qioren, Tu Ying, and Qiu Jicheng (who drafted and wrote the final version of the comprehensive report): Gao Xiaomeng (in charge of the section on agriculture); Ran Mingquan (in charge of the section on livestock breeding); Gao Shan (in charge of the section on forestry); Zhou Qiren (in charge of the section on mining and energy industry); Luo Xiaopeng (in charge of the section on machine building industry); Chen Xiwen (in charge of the section on food industry); Du Ying (in charge of the section of textile industry); Bai Nansheng (in charge of the section on construction industry); Yang Jinglun (in charge of the section on service trade); and Liu Hong (in charge of the section on comparison data of international experience). Chen Xiwen, Luo Xiaopeng, Deng Yingtao, and Lu Mai took part in the discussion to finalize this report. Song Guoqing, Hao Yisheng, Wang Mu, Wang Xiaolu, and Ding Ningning gave important opinions on the revision of the draft report./

/9365
CSO: 4006/24

SHENYANG'S THREE MAJOR EXPERIMENTS

Beijing LIAOWANG [OUTLOOK] in Chinese No 25, 23 Jun 86 pp 28-29

[Article by Zhou Baohua [0719 0202 5478] and Lin Chen [2651 2525]: "Shenyang's Three Major Experiments"]

[Text] It is not without reason that some people refer to the important industrial city of Shenyang as an experimental laboratory in the reform of the urban economic system.

As one recalls, during the meeting at Shenyang on the theory and practice of reform, the municipal party secretary Li Changchun [2621 7022 2504] indicated to specialists and scholars who had come from all over the country, that Shenyang is quite willing to be the site of experiments in reform.

During the last few years, Shenyang has indeed displayed this pioneering spirit by carrying out a series of experimental reforms in a vigorous and reliable, as well as courageous and scientific manner. Those that attracted most attention were the experiments with the leasing of industrial enterprises, the disposition of unprofitable enterprises by means of bankruptcy proceedings, and the system of share-ownership of enterprise assets.

Leasing--A Most Stringent System of Factory Director Responsibility

The first city in the nation to carry out experiments with leasing of small-scale industrial enterprises to individuals was Shenyang, and this was also the beginning of Shenyang's many reform experiments.

In the latter half of 1984, the Shenyang Motor Vehicle Plant selected two of its subordinate enterprises, the Shenyang Gasoline Pump Factory and the Shenyang Axle Pin Factory, as test cases for operation under leases to individuals. A lessee was selected by choosing the best among the many who submitted tenders through a process of inviting bids, entering bids, responding to bids, and evaluating the bids. By providing a guarantee in the form of a certain amount of personal property and two guarantors, and through legal notarization, the lessee obtained the right to operate the enterprise and became formally the representative of the juristic person.

To transform an enterprise into a comparatively independent producer of commodities, it is necessary to accept the appropriate separation of the managerial right and the ownership right, i.e. to find a concrete way of appropriately separating the "two rights." Leasing may be said to be the most thoroughgoing of the several ways that have so far been explored to achieve this "separation."

The pattern of this type of business operation constitutes a breack with the traditional method that had prevailed for a long time, which had insisted that enterprises owned by all the must be directly run by administrative departments. It completely changed the situation where enterprises had to be appendages of government organs. The change also introduced legal methods into economic work, by securing legal guarantees for the fourfold interests of state, enterprise, personnel, and lessee.

Practice has proven lease operations to be conspicuously successful in rescuing small unhealthy enterprises. The Shenyang gasoline pump factory and the Shenyang axle pin factory have both been in a depressed state for many years, but this state of affairs was completely changed after only half a year of operations under lease. Comparing the latter half with the first half of 1984, the output value of the two factories increased 59 and 67 percent, and profits increased 3.2 and 13 times, respectively, while the individual income of staff and workers also increased 50 percent.

The "boss" in this operation of putting the two factories out to lease was manager Zhao Xiyou [6392 1585 0645] of the Shenyang Motor Vehicle Plant, who told us: "Leasing industrial enterprises in China is essentially a most stringent system of factory director responsibility. In the past, no serious attention was paid to the interests of those who managed the enterprises, a fact which made it impossible to raise their enthusiasm. Leasing operations will effect a linkage of interests among the four parties concerned, namely the manager, the state, the enterprise, and the staff and workers of the enterprise; it will induce the factory director to attend to factory affairs with the same meticulous care as if he would be fixing a large upright cabinet in his own house."

Following a more thorough study and expansion of this experiment, the Shenyang municipal party committee and the municipal government analyzed the experiences and decreed for the whole municipality a set of "Tentative Regulations for the Operation Under Lease of Small-Scale State Enterprises."

These regulations clearly and definitely point out that--on the premise of the immutable nature of the enterprise ownership system--such leases to individuals combine the lease mechanism with the systems of distribution according to work and democratic management into a socialist pattern of business management. Whatever the lessee gains as bonus in the proportion specified in the lease contract is income from individual labor and as such protected by state law. In view of the risks involved, the lessee must not transfer all his annual income to the consumption fund, but must deposit part of it in the enterprise as a lease security deposit, to be better able to face any risks of his business operations. At the conclusion of the lease, the security deposit will still revert to the lessee according to the provisions of the contract.

Last year, 33 small-scale industrial enterprises in Shenyang were operated under lease arrangements. Compared with the preceding year, the gross value of their industrial output had increased 61.5 percent, gross profit increased 2.3 times, and these items showed 4-time and 6-time increases, respectively, compared to the average magnitude of increases of the entire municipality. This year the number of the city's small-scale industrial enterprises operated under lease to individuals increased to 63.

Bankruptcy--Enterprises To Be No More Merely Responsible for Profits Without Responsibility for Losses

If we say that leasing is a method of stimulating managerial enthusiasm and thereby spurring on unprofitable enterprises to bestir themselves, then bankruptcy proceedings are a kind of penalty that can be imposed on such enterprises.

At a time when academic circles throughout the country were still arguing whether enterprise bankruptcy can exist in socialism, Shenyang, proceeding from actual conditions, concluded its meticulous investigation and studies of the matter by promulgating in February last year a set of "Tentative Regulations Governing Bankruptcy and Liquidation of Industrial Enterprises Under Urban Collective Ownership." Shenyang thereby transferred the bankruptcy problem from the theoretical field into practical reality.

If socialist enterprises are to be transformed into relatively independent producers and traders of commodities, it is necessary to resolve the problem of their being only responsible for profits without responsibility for losses and to truly institute their responsibility for both profits and losses. Article 26 of the Shenyang bankruptcy regulations incorporates this new concept, when it prescribes: Enterprises whose assets are insufficient to meet their obligations, or who for two years have incurred losses not due to government policies, if such losses exceed 80 or more percent of the state's assets in the enterprise, fall within the scope of enterprises to be declared bankrupt and to be liquidated. If they cannot be revived after 1 year's readjustments and rescue measures, they shall be officially declared bankrupt. The assets of the enterprise shall then be used to pay its debts. Its staff and workers shall without exception become "job-waiting" and receive livelihood support from a bankruptcy social relief fund.

On 3 August last year, the Bureau of Industry and Commerce of Shenyang Municipality issued "bankruptcy warning notices" (commonly referred to as "yellow warnings"), based on the bankruptcy regulations, to three enterprises, the Municipal Agricultural Machinery Plant No 3, the Municipal Metal Foundry, and the Municipal Explosion-Prevention Materials Plant, setting them the time limit of 1 year to effect adjustments and relief measures.

The loud and clear sound of the "yellow warnings" caused a stir throughout the entire city.

This measure put a stop to the practice of allowing improperly managed enterprises to get away with it again and again. Plant prosperity is one's glory, failure is shameful; the bankruptcy regulations thus tied the interests of staff and workers closely to the interests of the enterprise and vigorously aroused a sentiment among the enterprise staff and workers of sharing a common fate. The staff and workers of the Shenyang Agricultural Machinery Plant No 3 and of the Municipal Metal Foundry had indeed been awakened. They strengthened business management, energetically opened up new markets, enhanced the quality of their products, and the beneficial consequences soon became evident. On the other hand, at the Explosion-Prevention Materials Plant, "the disease had attacked the vitals," making it impossible to revive the enterprise, which then had to be declared bankrupt.

The leading comrades of the State Council fully approved Shenyang's bankruptcy regulations. In the middle of June, China's first large-scale "Symposium on the Theory and Practice of Enterprise Bankruptcy and Liquidation" was held at Shenyang. This reform experiments in Shenyang resulted in an "Experiment Report," which is of greatest reference value for the formulation of the future national bankruptcy law.

Shares--An Attempt to Reform the Internal Ownership Structure of Certain Small-Scale Enterprises

In China, share-ownership economy is something of a not too large and not too small "forbidden zone." Just as in the case of leasing and bankruptcy, many conceive it as a "patent" held by capitalism. Actually, capitalism has no exclusive right at all to these three economic methods, which are a part and parcel of commodity economy. Since we are intent on practicing a socialist commodity economy, it certainly behooves us to use the mentioned economic methods as reference and explore leasing, bankruptcy, and share-ownership in ways that will suit the national conditions of China.

Based on the above-described reflections, Shenyang has not only successively tried out leasing operations and bankruptcy procedures, but also, from the latter half of last year on, an asset-share system as a reform experiment in two collective-owned enterprises of the Bureau for the Machine-Building Industry.

The share capital of the two Shenyang enterprises serving as test cases consists of shares belonging to the state, to collectives, and to individuals, while the enterprise is also allowed to solicit share subscriptions from other enterprises, industrial units and individuals. The investors jointly share management, jointly profit, and jointly bear the risks involved. The net profits after taxes are distributed among the shareholders in proportion to their investments. If the enterprise incurs losses, not only is there no bonus distributed on every type of share, but joint responsibility has to be borne by each share according to its proportion in the total of all shares of the enterprise. The shares belonging to the enterprises are centrally administered by the People's Bank; shares belonging to individuals may be transferred against remuneration, and may also be donated, inherited, and serve as security, as far as legally permitted.

In the first test cases, the Shenyang Small Compressor Factory and the Shenyang Compressor Valve Factory converted their original enterprise assets into shares, and then solicited subscriptions to individual shares from their staff and workers to the amounts of 300,000 and 150,000 yuan, respectively, which accounted for 16 and 13 percent, respectively, of the total assets of the enterprises. This shows that individual shares account for only a small portion of the total shares of the enterprises, the largest portion still remains held by the state and the collectives. In this way, the problem of monopolies by individual shareholders cannot arise, and there can also be no change in the socialist public-ownership character of the enterprises.

By instituting the share-ownership system, the staff and workers of the enterprise, on the one hand, become owners of its assets, and, on the other hand, also its managers, workers, and the beneficiaries of its achievements. Enthusiasm and creativity among staff and workers has risen to unprecedented heights. Last year's output value of the small compressor factory and the compressor valve factory had risen 24.5 and 27.5 percent, respectively, over that of the preceding year, and profits had risen 26.6 and 47.5 percent. Total bonuses and dividends on every 100 yuan of individual shares held by staff and workers at the two factories were 28.80 and 31.48 yuan, respectively.

In March this year, the Shenyang Municipal Government again approved 19 collective machinery industries and 1 small-scale state-run enterprise to convert on trial to the share-ownership system. In view of the good results in the test cases, the relevant departments of the municipal party committee and of the municipal government are now in the process of drafting documents of a regulatory nature for the introduction of the share-ownership system in small-scale enterprises.

The three major experiments of leasing, bankruptcy proceedings, and conversion to the share-ownership system carried out by Shenyang in the course of its reform experiments have shown exuberant vitality. Of course, there are still many shortcomings in these exploratory efforts, that require further perfection. For instance, operation of small-scale enterprises on a lease basis is currently limited to test cases with enterprises that incur losses or are on the verge of incurring losses; would it not also be suitable for profitable enterprises? In view of the fact that most lessees lack the necessary funds for security deposits, although there is indeed a provision in the contract that in case of bankruptcy compensation must come out of rent, the regulations prescribe that the lessee must not transfer the full amount of the year's income to the consumption fund, but must deposit one part in the enterprise as a lease security fund. However, if the bankruptcy unexpectedly occurs in that very year, how is the question of compensation to be dealt with? Again, for instance, in the case of enterprises on the verge of bankruptcy but allowed 1 year as "period for relief measures," how is one to "help without taking on the whole burden, rescue but keep within reasonable limits?" The regulations on enterprise bankruptcy have not yet outlined clear limitations for the assistance. Again, for example, after converting to the share-ownership system, how is one to give expression to the principle of distribution according to work internally within the enterprise; should one impose controls over the individual shares, and how is one to effect such controls? After converting to the share-ownership system, how are the party organizations, labor unions, the staff and worker representative assemblies to carry out their work in future? All these questions are now being further studied and explored by the Shenyang Municipality.

9808
CSO: 4006/1225

FINANCE AND BANKING

FINANCIAL BALANCE REPORTED ACHIEVED IN EVERY 5-YEAR PLAN

Beijing CAIZHENG [FINANCE] in Chinese No 5, 8 May 86 p 11

[Text] China Achieves Budgetary Balance in Last Year of Every 5-Year Plan

Unit: 100 million yuan

Period	First 5-Year Plan (1953-57)	Second 5-Year Plan (1958-62)	Third 5-Year Plan (1966-70)	Fourth 5-Year Plan (1971-75)	Fifth 5-Year Plan (1976-80)	Sixth 5-Year Plan (1981-85)	Seventh 5-Year Plan (1986-90)
Items	1957	1962	1970	1975	1980	1985	1990
Revenues	310.19	313.55	662.90	815.61	1,085.23	1,854.11	2,567.00
Revenues from enterprises	144.18	146.22	378.97	400.20	435.24	40.64	
Revenues from taxes	154.89	162.07	281.20	402.77	571.70	2,010.82	
Expenditures	304.21	305.25	649.41	820.88	1,212.73	1,825.94	2,567.00
Capital constructions	123.71	55.65	298.36	326.96	419.39	569.73	
Funds allocated for developing potential, remolding, and trial production of new products	2.29	14.65	14.78	31.47	80.45	100.50	
Cultural, scientific, and public health undertakings	27.76	36.74	43.65	81.29	156.26	317.16	
National defense	55.11	56.94	145.26	142.46	193.84	191.48	

Note: (1) Revenues include incomes derived from foreign loans and expenditures include the use of foreign loans.

(2) Losses incurred by and price subsidies paid to the enterprises in 1985 were calculated according to chong jian [0394 8096] income and have been deducted from the total amount of revenues. That is why the figure for revenues is smaller than that for the various taxes.

(3) Following the second stage of the payment of taxes instead of profits reform, the profits of most of the enterprises were paid in the form of taxes. That is why there is a corresponding reduction in the incomes of the enterprises in 1985.

(4) Revenue and expenditure figures for 1985 are budgetary amounts to be implemented while those for 1990 are figures according to the plan.

(Supplied by the Statistical Bureau of the General Planning Department of the Ministry of Finance)

9621/7358
CSO: 4006/1079

FINANCE AND BANKING

BANK OF CHINA OUTLINES MAJOR TASKS FOR 1986

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 4, 4 Apr 86 pp 11-13

[Article by Wang Deyan [3769 1795 5888]: "Strive To Raise Foreign Exchange Funds and Vigorously Support Exports To Earn Foreign Exchange"]

[Text] The major tasks of the Bank of China in 1986 are properly using funds, exercising proper control of the orientation of capital investment, and striving to meet the demand for improving macroeconomic control while continuing to enhance control over the scale of credit. The focus of the work is to continue to do a good job in raising foreign funds, actively expand business regarding deposits and savings deposits, vigorously support foreign trade and exports, support technological transformation, tourism, and the development of foreign enterprises, joint ventures, and cooperative enterprises, ensure the foreign exchange needs of major state projects, further raise the level of international account settlement, strive to earn more foreign exchange in a shorter period of time, conscientiously strengthen administration and management, and strive to improve service quality.

1. Tap the potential of funds and speed up capital turnover

The credit plan of 1986 can be properly fulfilled mainly by striving to expand the sources of funds, vigorously tapping the potential of funds, speeding up capital turnover, making proper arrangements for capital supply, ensuring the support of key projects, and focusing energies and time on improving macroeconomic control.

A. Under the current condition that the supply and demand contradiction of Renminbi and foreign exchange funds is still prominent, it is imperative that more time and energies are spent to improve macroeconomic control and that funds are used where they are most needed. It is necessary to exercise proper control over the orientation of capital investment, pay close attention to the efficient use of capital, and create some good experiences in speeding up capital turnover.

B. Vigorous efforts should be made to expand business in foreign exchange and Renminbi deposits and savings deposits, strengthen leadership over the work of absorbing deposits, and solve existing problems. First of all, it is necessary to organize well foreign exchange deposits and enterprises' deposits. Existing business organizations should be used to handle business in Renminbi savings deposits according to state policies and unified rules and regulations and efforts should be made to strengthen publicity, provide better service, and earnestly carry out this task.

C. Deposits should be linked to credit. When Renminbi deposits decline or fall short of the plan, credit should be reduced accordingly. When the deposit plan is overfulfilled, the surplus amount may be used to extend more credit and circulating fund loans within the highest limit approved by the People's Bank.

D. Vigorous efforts should be made to tap the potential of funds. Continuous and conscientious efforts should be made to examine, sort out, and reduce unreasonable loans and hasten the collection of overdue loans. At the same time, it is also necessary to strengthen the distribution and horizontal links of funds and alleviate the contradictions in supply and demand of capital.

2. Properly use capital and vigorously support exports to earn foreign exchange

Vigorously supporting exports to earn foreign exchange is the central task of the Bank of China. All branches should strengthen the distribution of funds, properly arrange capital supply, and give priority to ensuring the smooth fulfillment of foreign trade and export plans.

In 1986, Renminbi circulating funds should be centralized to ensure the planned procurement of export commodities. Vigorous supports should be given to intermediate- and long-term loans for the exports of machine-building and electronic products and the reasonable capital needs of foreign enterprises, joint ventures, and cooperative enterprises. Foreign exchange loans should be used mainly to support major state construction projects such as energy development and transportation and communications; support the technological transformation of enterprises with a short construction period and the ability to earn foreign exchange through exports; and, within the bearing capacity of funds, vigorously support contracted foreign construction projects, tourism, and the development of foreign enterprises, joint ventures, and cooperative enterprises.

Due to a reduction in state foreign exchange reserves and the limitation of our bearing capacity as a whole, loans with preferential interest rates basically will not be increased from now on, but the current balance of such loans may still be used for such purpose. All branches should speed up the turnover of such capital and create more social economic results.

With regard to special foreign exchange loans, we should still persist in suspending Type B, collect and convert Type B into funds, and transfer them to the headquarters so as to concentrate all energies on Type A, strive to balance as soon as possible the two types of loans, and study how to distribute them after they are basically balanced.

It is necessary to exercise strict control over fixed-asset investment. In 1986, we should not only control the general scale of investment but also pay attention to readjusting investment patterns and sorting out projects. Except for energy, transportation, export, and other state-approved projects, all above-plan projects newly started in the fourth quarter of 1985, according to the circular of the State Council, must have their allocations cut off and be subject to clearance. Loans for capital construction, technological transformation, and other fixed-asset investment must be put under strict control. Granting above-plan loans is prohibited. In case of violations, branch presidents will be held responsible.

Before a system is officially established, credit business should be focused on doing a good job in planned financing and management of investment, rent, and lease projects on which contracts have been signed. After a system is officially established, other arrangements will be made. From now on, credit business should focus on using foreign capital, supporting technological imports, vigorously carrying out businesses regarding Chinese foreign joint investment, international rent and lease, information, and consulting services, and playing the role of a bridge in the open policy.

C. Continue to do a good job in raising foreign exchange funds

The task of raising foreign exchange fund is still very heavy on the Bank of China in 1986. This demands that we plan as a whole, make early arrangements, use different channels and various methods, pick the opportune moments, and try in all possible ways to raise foreign exchange funds on relatively favorable terms.

Foreign fund raising should be handled mainly by the headquarters. When branches help local areas get loans directly from foreign countries or provide guarantees and organize banking groups to issue or transfer loans for local areas, they must abide by the relevant rules and regulations of the state and the headquarters. Without the approval of the Bank of China, they should not provide guarantees for foreign loans in the name of the Bank of China.

4. Strengthen administration and management and improve service quality

In the past few years, the business, organization and personnel of the Bank of China have grown rapidly, but its internal management level lags far behind the development of situation and its service quality also fails to satisfy the demand of the large number of clients. Strengthening administration and management and improving service quality have become a task of top priority for the Bank of China. In 1986, the Bank of China ought to implement the "Interim Provisions of the People's Republic of China for the Management of Banks" in an all-round way, emphatically strengthen the management of international account settlement, credit, trust, financial accounting, and cashiers' work, improve service, and increase work efficiency.

International account settlement must be strengthened. In accordance with the demands of the foreign trade account settlement conference held by the Bank of China in 1985, we should further strengthen supervision over the taxation of imports and the use of foreign exchange for the purpose of imports. First of all, we should do a good job in import taxation and ensure that all requirements on foreign exchange, or the amount of foreign exchange, and

Renmibi in addition to relevant requirements of import taxation must be met. Export exchange settlement should continue to adopt safe and reliable methods and gradually improve them. It is necessary to establish and perfect various rules and regulations, strengthen regional business cooperation and cooperation between banking and foreign trade organizations, improve international account settlement instruments and facilities, and improve the quality of international account settlement service.

In regard to credit and trust services, we should continue to do a good job in examination and clearance; tighten control over credit plans, the limits of authority to grant approvals, loans, and investment projects; strengthen basic work such as business statistics; and pay special attention to perfecting all rules and regulations. The trust system in principle should be handled according to the stipulations prescribed in the "Interim Provisions of the People's Republic of China on the Management of Banks." Concrete measures for implementation will be adopted separately.

We should conscientiously implement the "Accounting Law" and the "Interim Provisions on Auditing" which was issued by the State Council, continue to strengthen financial accounting and auditing, strictly enforce financial and economic disciplines and rules and regulations, fully develop the supervisory function of auditing, and enable financial accounting and auditing to become effective means for raising administrative and managerial levels.

Improving service is an important part of the 1986 reform of monetary system. State Councilor Chen Muhua recently wrote an inscription for the Bank of China, calling on us to "provide quality service for clients at home and abroad." In accordance with this instruction, we should adopt feasible measures, strengthen the personal responsibility system, strive to improve service attitude and quality, increase work efficiency, speed up computer and electronic communications projects, and use quality service to facilitate the growth of all businesses.

We should continue to strengthen the development of cadres' contingents, do a good job in cadre training, manage well the four training centers of the Bank of China and focus on the training of cadres and specialists at and above the section level.

In accordance with the spirit of paying simultaneous attention to "both civilizations" set forth by the CPC Central Committee, we should conscientiously correct the work style of our party and bank, strengthen the work of intellectual progress and strive to achieve a fundamental turn for the better in the work style of our party and bank. Main tasks that must be done well are as follows: 1) Have leaders take the lead, set an example, take the job seriously and come up with good results; 2) dare to tackle tough jobs and handle the investigation of major and important cases; 3) carry out ideological education, strengthen work in intellectual progress and extensively pursue and popularize education in legal systems, communist ideals, and foreign affair disciplines; and 4) further strengthen discipline inspection, continue to staff and perfect discipline inspection organs at all levels, assign discipline inspection cadres, and give full play to the proper role of discipline inspection.

12302
CSO: 4006/1010

FINANCE AND BANKING

FULFILLMENT OF BUDGETARY TARGET FOR 1986 STRESSED

Beijing ZHONGGUO SHUIWU [CHINA'S TAXES] in Chinese No 5, 12 May 86 pp 2-4

[Part III of a report delivered by State Council member and concurrently Minister of Finance Wang Bingqian [3769 0014 0051] at the Fourth Meeting of the Sixth NPC]

[Text] To ensure the successful completion of the state budget for 1986, to continue to achieve a budgetary balance and to complete the economic and financial goals for the first year of the Seventh 5-Year Plan, we must unify our thoughts and pool our wisdom and efforts in approaching the following tasks.

We must strive to increase production and reduce expenditures and raise the standard of economic effectiveness to ensure the continued and steady increase in revenues. Long years of actual experience tells us that the basic solution of our financial problems lies in the development of production, especially under the present situation marked by the invigoration of the economy, the implementation of the open door policy, and the introduction of reforms. We must not only preserve and develop the original sources of revenue, but also seek to open up and develop new sources. We must find ways and means to increase production, engage vigorously in the various productive undertakings according to the plan and the policy of the state, develop tourism and the service trades, and strengthen the socialist commodity economy in order to increase the income of the state. We must also take note of the problems of poor product quality, the waste of materials, the slow rate of circulation of funds and the length of the construction period. These problems are particularly irksome among certain production and construction units which, by neglecting to adopt scientific methods and failing to observe the rules of economic accounting and to fulfill their responsibilities, have incurred the loss of large amounts of funds through creating losses in their construction work, the scrapping of their products as worthless, and the spoilage of their materials. People in general have now come to recognize corruption as a crime. However, while it is agreed that a person guilty of corruption involving 10,000 yuan should be held accountable, some people still find it difficult to equate wastage with crime, so much so that nobody raises any questions over the wastage of 10 million yuan. Excuses are sometimes offered by way of explanation and responsibility is shifted to somebody else so that big problems are turned into small problems and small problems into no problem at all. That being the case, we must take it upon ourselves to make serious efforts to enhance economic effectiveness, to increase income, to practice strict economy, and to eliminate waste. Each and every economic department and unit must give top priority to the increase of economic effectiveness and each and every person must wage a struggle against the incurrence of loss and wastage. The governments at various levels as well as the concerned departments must investigate and deal strictly with major instances of loss and wastage and hold those in leadership positions and the concerned parties accountable. At the same time, the various regions and departments must place emphasis on and strengthen the operational administration of the enterprises, strictly enforce the economic accounting system, direct their efforts toward improving the quality of their products, increase the production of commodities in demand, reduce production cost and wastage, speed up the circulation of funds, shorten the construction period, and use the least amount of consumption to achieve the highest economic results.

As regards our work in the financial field, we must, in addition to directing our attention to ways and means to create and to accumulate wealth, concern ourselves with how money is spent. We must put money to the best use, manage it well and spend it in a flexible manner so that the maximum benefit may be derived from the available funds. We must adopt positive measures to support the technical reform and improvement of enterprises and to develop to the full the potential of the enterprises themselves so as to bring about a significant improvement in economic effectiveness in the areas of production, construction, and circulation. We must try harder to turn our losses into profits, to reorganize the enterprises whose production is not sufficient to cover their debts and to compel them to engage in the production of other commodities. The allocation of funds by the treasury and the banks should be denied those projects which have been put into operation without the approval of the state and subsidies are not to be paid by the state to cover losses incurred by projects after they have gone into operation. With the development of production and the continual improvement of economic effectiveness, the financial and tax departments at various levels must direct their efforts toward increasing revenues to ensure the successful completion of the budgetary task of the state.

We must continue to strengthen and improve macroeconomic control, to do what we are capable of doing to the best of our ability and to exercise control over and to cut down on expenditures. We must regard it as imperative to maintain a basic balance between the total amount of supply and demand in society and see to it that the scale of expenditures and the various major expenditures are kept within the limits of the state plan and the state budget by making every effort to economize, to use money wisely and to avoid waste. In 1985, the total amount of investment in capital construction made by state-owned units came to the substantial amount of 106.1 billion yuan, showing an increase of 42.8 percent compared to the previous year. According to the state plan, the amount for this year has been set at 95 billion yuan. Effective control over this amount of investment is crucial to the achievement of stable development during the current year. For this reason, the amount of investment, no matter whether or not it is within the budget and whether it is made by the central government or the localities, must not exceed that set by the state plan. At the same time, we must, to meet the demands of the state plan, also seek to readjust the structure of investments, reduce to a proper extent investments in nonproductive operations and the processing industries and increase investments in energy production and the transportation, communication, and raw materials industries so as to create favorable conditions for the smooth development of the national economy. In recent years, the excessive rate of increase in consumer funds has exceeded that of economic development. In 1985, the total amount of wages paid to staff workers throughout the nation showed an increase of 20.9 percent compared to the previous year, a rate that is extremely high. In order to keep the increase in consumer funds within proper limits, we must put a lid on consumption expenditures, especially administrative and management expenditures, and continue to exercise control over the purchasing power of the various groups in society. Quotas should also be set for the lower levels to control the two categories of expenditures mentioned above. As regards incidental expenses incurred by cadres in their travels abroad, we must also strengthen supervision and control over foreign exchange and RMB expenditures and put an end to such wasteful practices as the making of investigation trips in duplication. Furthermore, in order to achieve an overall balance in the various types of funds, the decision has been made by the State Council to exercise tighter control over funds not included in the budget, to overhaul the "petty cash" funds of the various units and to establish the necessary system of control so as to make it possible to make use of funds in a proper manner and to develop economic effectiveness to a further extent.

To meet the need for consolidating, readjusting, restructuring and improving, we must do a good job in filling the gaps in the reform of the economic system and perfecting the taxation system. Aside from what was said earlier in the report regarding the need to reduce the readjustment tax, to increase gradually the depreciation rate for large and medium enterprises and to further invigorate the large and medium enterprises and enterprises engaged in the export trade, we must also continue to perfect the industrial and commercial tax system during the current year. We must take note of the new situation which has arisen following the readjustment of prices for certain commodities in readjusting upward or downward the tax rates for the various products. We must further expand the scope for levying the appreciation tax, readjust properly the appreciation tax rate, improve the method for the assessment of taxes, and levy the natural resources tax on mineral products which come under the category according to the amount of production. We must draw up without delay regulations for levying taxes for the use of land, real estate, motor vehicles and shipping and have them promulgated and enforced on a trial basis. Certain reforms were already adopted in the financial system last year. During the current year, the various provinces, autonomous regions and cities directly under the central government must continue to enforce such measures as "the classification of types of taxes, the checking and ratification of incomes and expenditures and the assumption of contract responsibilities by the various levels." We must, however, make use of our experience in improving the financial management of cities below the provincial level and the counties. The finances of the towns should be managed according to the principle applying to rural areas, namely, the separation of the government from the cooperatives and the perfection by gradual degrees of the financial management of the towns by making use of our experience in that area. At the same time, the state must focus its attention on the necessary preparatory work in the financial field to bring about reforms next year and the year after next and achieve coordination with and render its support to the reform of the economic, scientific, technical, and educational systems.

It must, in particular, make use of its financial policy and resources to promote transregional and transdepartmental economic integration laterally among the enterprises.

We must strengthen financial supervision, demand strict observation of financial and economic discipline and put an end to unhealthy tendencies to ensure the continual achievement of budgetary balance, to promote the reform of the economic system, and to strengthen the establishment of a socialist spiritual civilization. The departments of the central government have done well in taking the lead in rectifying the party workstyle and in checking unhealthy tendencies throughout the nation. In coordination with such efforts, we should mobilize the cadres and the masses in the various battle lines throughout the nation to carry forward the glorious tradition of waging an arduous struggle in building up the nation through thrift and hard work, to increase production and reduce expenditure, to oppose extravagance and waste, and to rectify unhealthy tendencies by strengtheninging the work of supervision and investigation.

From what was revealed by a full investigation of tax revenues, finances, and commodity prices conducted last year, it is clear that violations against financial and economic discipline in the economic field are of serious proportions. Some enterprises, resorting to selfish departmentalism, have knowingly broken the law by evading the payment of taxes, retaining too large an amount of profits, engaging in the transfer of state funds or, by overstepping the limits of authority granted by the state, reducing their taxes of exempting themselves from the payment of taxes, and increasing the amount of special allocated funds. Some units, by using the pretext of "reform and invigoration," have established collective "companies" and centers and have diverted the properties, products, funds and profits belonging to state-owned enterprises to collectives, thus turning what belongs to the public into the property of private parties. Some individuals are not above taking advantage of their authority to enrich themselves and to transfer certain commodities, loans, subsidies, and foreign exchange to their relatives, friends, children, and related households engaged in commercial operations. Others, disregarding the laws of the state and the interests of the masses, resort to raising prices, charging fees, exacting penalties at random, and extorting and embezzling what should rightly belong to the masses. Some, plagued by an overdose of individualism, vie with one another in purchasing or replacing imported motor vehicles, make use of various pretexts to travel abroad at public expense and give dinners and presents to their friends. A few people have been guilty of such serious crimes as graft and embezzlement, the offering and taking of bribes, speculation and fraud, smuggling and trading in contraband goods, and the scale of economic information. Although these problems involve only a few units and cadres, they have serious consequences and repercussions in that they interfere with construction, the open door policy and reforms, corrupt the morals of the cadres, undermine the party workstyle and social values, and damage the image of the party and the government in the minds of the masses.

There is a close link between bringing about a basic change for the better in the financial and economic situation of the state on the one hand, and in the party workstyle and the social climate, on the other. The continued existence of unhealthy tendencies would not only bring about greater economic losses, but also seriously impede the work of bringing about a basic change in the party workstyle and the social climate for the better. It was for this reason that the decision was made by the State Council that while the work of strengthening the socialist legal system and exercising supervision and control as a matter of routine is in progress, we must, in the next few years, pick the opportune moment to conduct a general investigation into tax revenues, the financial situation and commodity prices, deal with the problems of extravagance and waste as matters of great consequence, rectify unhealthy tendencies in the economic field, engage in the strict enforcement of law and discipline, and see to it that matters are dealt with scrupulously according to the law, that laws are strictly enforced and that those who violate the law are held accountable so as to ensure the successful establishment of a socialist material and spiritual civilization.

Members of the NPC: The state budget has been implemented in a basically normal manner during January and February. As the party workstyle and the social climate take a turn for the better and the various measures of economic reform are being gradually perfected, the national economy is certain to be developed in a more stable and coordinated manner during the current year and conditions will be most favorable for the implementation of the state budget during the current year. We must work closely with the people of various nationalities in the nation in tackling our various tasks. We must refrain from empty talk and do actual deeds as we direct our efforts toward the struggle to implement successfully the state budget during the current year!

9621/7358
CSO: 4006/1079

INDUSTRY

TERTIARY INDUSTRY NEWLY EMERGING FORCE IN COUNTRY

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 28 14 Jul 86 p 13

[Article by Ji Xing [4764 5887]: "Tertiary Industry Emerges as a New Force in China"]

[Text] Over the past 5 years, China invested an enormous sum of more than 160 billion yuan in tertiary industries. This amount is 47 percent of the investment alloted by the state for capital construction in state-run enterprises. At present, there are more than 73 million people employed nationwide in tertiary industries. For the first time, more people are employed in tertiary industries than there are in primary and secondary industries.

This fact shows that China's production structure is hastening toward that characteristic of a modern economy. In 1985 gross output value in tertiary industry was more than 170 billion yuan. Five years ago gross output in tertiary industry was only 19 percent of the output for primary, secondary, and tertiary industries combined. Now, this percentage has risen to 21.8. Over the past 5 years, output in tertiary industry has risen 12.6 percent per annum. This figure is higher than those for the annual growth rates in primary industry and of secondary industry during the same period.

As China moved from an agricultural society to an industrial one, everyone tended to emphasize production and neglect circulation and the services. Because tertiary industry was not viewed with importance, its development fell greatly behind that of industry and agriculture. A goal over recent years has been to change this traditional view. Last April, the State Council approved a report by the State Statistical Bureau on the tabulation of statistics on tertiary industry. Furthermore, gross national product was to be used as an important index of progress in each of the economic sectors. This is in contrast to the use, over the past 30 years, of the gross value of industrial and agricultural output as the main index. The choice of index for China, which operates under a planned economy is of crucial importance because the index used provides strong incentive to produce..

China divides the three major industries in the following manner:

Primary industry: Agriculture (including forestry, animal husbandry, and fishery)

Secondary industry: industry (including mining, manufacturing, power, running water, gas, etc.) and construction

Tertiary industry: Industries other than those in primary and secondary industries. Included are 4 levels: circulation, production and daily services, support services for the improvment of science and culture, and essential social services.

The state is now developing the tertiary industry as an independent sector of the national economy. This is a novelty in China. It has attracted attention from many quarters and various social forces are being mobilized for its support. China has taken this action in coordination with its policy of opening the country to the outside world and invigorating the economy at home and the policy of pooling the resources of the state, the collectives and the individuals. In a few years, tertiary industry has become one of the most active sectors in economic reform. Now, tertiary industrial units run by the collectives and individuals account for more than two-thirds of the total number, and in 5 years, the number of its employees has increased 1.4-fold. Its share of the total retail sales volume has also increased from 16 percent to 60 percent in the same period.

The vigorous development of the tertiary industry has solved one of China's difficult social problems--the problem of employment. From 1981 to 1985, this industry has provided more than 27 million jobs in the country, equivalent to 37 percent of all the jobs newly created in the country in the same period.

Tertiary industry's rapid development marks a good beginning for both economic development and social progress in China. In the past 30 years and more, China directed its efforts at the material production departments so that its huge population did not suffer from hunger and cold. After the development of material production, both the production sector and the broad masses are making higher demands on services. For example, if everyday services are undeveloped, people will have difficulty making clothes and taking baths; if the information services are faulty, poor sales and stockpiling may result; if tathe consultation services areis undeveloped, some enterprises on the one hand may lack technical skill, and the fruits of scientific research and the scientific and technical personnel, on the other hand, may have no opportunity to demonstrate their worth; and if banking is undeveloped, some areas and departments may have idle funds while other areas and departments may be short of funds. According to the estimate of some experts, developed telecommunications can speed up the turnover of funds in the whole country by 0.1-1 percent, and save several hundred millions or even billions of yuan each year. People have become increasingly aware that development of the tertiary is the only way to promote social division of work, to develop the commodity economy, and to raise productivity. That is why the state has taken a series of measures to stimulate the development of this industry. The communications and the posts and telecommunications trades now enjoy priority in investment for the national economic development. Up to last year, the turnover of cargo traffic was 53 percent higher than 5 years ago, totaling more than 1,800 billion ton/kilometers, and 75 domestic air routes had been opened. The number of commercial, food and service outlets also increased more than 4-fold. Scientific and technological services and consultation services have mushroomed in various large cities. For example, there are in Guangzhou more than 300 offices for economic consultation, scientific and technological consultation, management consultation and trade consultation, with more than 30,000 employees. According to a survey by departments concerned on 40 enterprises under their jurisdiction more than 40 million yuan in profits were realized.

Some time ago, the World Bank issued a report with the proposal that China should take a different road of development--one which will make better use of its enormous wealth of human resource. This proposal jibes with a report by China experts on the study of China in the year 2000. In the Seventh 5-Year Plan now being implemented in China, the development of the tertiary industry is in line with national policy, and beginning this year, this development has been formally included in plans for national economic and social developments.

9411
CSO:4006/1242

INDUSTRY

DEVELOPMENT OF SHIP DISMANTLING INDUSTRY DISCUSSED

Beijing WUZI GUANLI [MATERIAL MANAGEMENT] in Chinese No 5, 20 May 86 pp 11-12

[Article by Wu Xiuwen [0702 0208 2429] of China Ship Dismantling Corporation: "A Tentative Discussion of the Development of China's Ship Dismantling Industry"]

[Text] Along with the implementation of the policy of invigorating the economy at home and opening the country to the outside world, China's ship dismantling industry developed vigorously in the past 3 years. The number of ship dismantling yards has increased from less than 20 to more than 200, and the capacity of dismantling discarded ships has increased from several tens of thousand to several million tons each year. Beginning with the small home-made passenger and cargo vessels, China is now able to dismantle ships of many types from many countries. Its ship dismantling capacity is now in the world's top rank. In the past 3 years, China's ship dismantling industry has supplied to the domestic market more than 1 million tons of rolled steel processed from the plates of dismantled ships in addition to several tens of thousand tons of scrap steel, and thus strongly supported housing construction in the countryside and the production of minor commodities in the light industry. At the same time, it has given jobs to more than 30,000 unemployed persons and paid the state 120 million yuan in taxes.

Practice in the past 3 years has proved that compared with the direct importation of rolled steel and scrap steel, importing discarded ships for dismantling can reduce our foreign currency spending by approximately one-third. The policy decision made by the leading State Council comrades on developing the ship dismantling industry in China is a correct one. This is a newly emerging industry which is beneficial to the state and to the people.

Good Opportunity Provided for Development of Ship Dismantling Industry in China by Recession in International Shipping

A decisive factor in the development of ship dismantling industry is the excessive capacity of tankers in the world. In the past decade or more, owing to huge increases in capital outlay, there has been greatly excessive capacity. The international shipping market conditions continued to deteriorate and some large shipping companies have gone bankrupt. According to statistics on world shipping, in 1952, there were in the world 31,461 merchant ships totaling 90.18 million gwt, and in 1982, 75,151 merchant ships totaling 268.74 million gwt. Although capacity was trebled, the available load was only slightly increased. In 1985, therefore, the total deadweight tonnage of ships left idle reached 64 million gwt, of which more than 50 million were tankers.

Furthermore, in the past several years, the international organization concerned set up certain new rules and standards to ensure shipping safety and to prevent ocean pollution. These rules and standards also speeded up the disposal of outdated ships. For example, the international pact on human safety at sea, formulated in 1978 stipulated that all tankers must be equipped with an inertia gas system. In 1981, however, 77 percent of the tankers with a deadweight tonnage of 125,000-170,000 and 90-98 percent of those with a deadweight tonnage of 225,000-300,000 were still not so equipped. The international pact for the prevention of ocean pollution by ships further stipulated that beginning October 2, 1983, tankers with a deadweight tonnage of more than 40,000 must be equipped with isolated ballast tanks and a crude oil cleaning system or clean ballast water tanks. Thus each tanker had to spend about $2 million, and many old ships had to be written off because their remaining service lives were not long enough to compensate this newly increased investment.

Finally, after the Suez Canal was widened and the pipeline between the Persian Gulf and the Red Sea was laid, the crude oil bound for Europe need no longer go around Cape of Good Hope, idling many large tankers, and greatly reducing demand for them.

The challenge from the new technological revolution has also greatly reduced the ships' service life, and their updating is being accelerated. The ships for dismantling are mostly tankers, and their service life was reduced from 21.3 years in 1972 to 18.3 years in 1982. More resources are now available to the scrap ship market.

What deserves our attention is that along with the recession in world shipping and the increase in idle ships, ship dismantling industry has flourished in the world, and the Far East, south Asia and south Europe, in particular, have gradually become ship dismantling centers. In 1984, Taiwan and South Korea dismantled 56 percent and 26 percent respectively of the world's idle or improvised tankers. In south Asia, the ship dismantling industry is also thriving in India, Pakistan and Bangladesh. Greece, Turkey, Yugoslavia, Italy and Spain in south Europe are mainly engaged in dismantling their own ships. However, since the prices of scrap ships in this region are 20-40 percent below that of the Far East, we may buy some of the ships at offshore prices to increase the economic benefits for the ship dismantling industry.

China's Unique Objective Conditions for Ship Dismantling Industry

Favorable natural conditions are the basic requirement for developing ship dismantling industry. China has a long coastline, beginning from Dalian in Liaodong Peninsula in the north, passing through Bohai, Huanghai, and Donghai, and ending in Nanhai at Beihai and Fangcheng harbor of Guangxi. There are many deep-water havens with spacious beaches and good transportation facilities suitable for the establishment of ship dismantling yards. The Liaodong Peninsula, Shandong Peninsula, Zhoushan Islands, Zhujiang Delta, and the regions at the lower reaches of the Chang Jiang have, in particular, become the areas for the intensive development of the ship dismantling industry.

Rich labor resources are also an important condition for the development of this industry. Ship dismantling has to be carried out in the open sea, and some disassembling and moving jobs have to be performed high above the deck, under poor conditions, with great physical exertion, and at great risks. The workers of some developed capitalist countries are generally unwilling to do these jobs, and that is why the ship dismantling industry is flourishing mostly in the developing countries. China has rich labor resources and the people can endure hardship. In the past 3 years, this industry has provided job opportunities for a large number of unemployed people. Now let us look at the cost of ship dismantling. In Japan and some South European countries, the cost for dismantling each ton of scrapped ship is $30-50, of which about 40 percent are wages. In China, the cost is about 40-50 yuan renminbi, of which, only 15-20 percent are wages. Thus we can see that although the time required in China is a little longer and the consumption is a little higher, the cost of ship dismantling is generally half to two-thirds lower than in developed countries because of lower wages.

Furthermore, there is a great demand for rolled steel and scrap steel in the domestic market, and this demand can also be a strong impetus to the development of the ship dismantling industry.

Several Macroeconomic Problems To Be Studied and Solved in Developing China's Ship Dismantling Industry

First, there must be a rational layout and an appropriate production scale. The ship dismantling yards have made fairly good profits in the past several years, thanks to the state's preferential treatment in the way of tax exemption and subsidies, and to the scarcity of rolled steel, price increases, and other factors. The regions along the coast and the rivers and some departments have vied with one another in setting up ship dismantling yards. According to a survey, there are now more than 50 such yards in Dalian alone, and more may be forthcoming. Last year, therefore, the State Economic Commission decided to conduct immediate readjustments and consolidation of the existing ship dismantling yards, and to work out their rational distribution in the north, south, along the coast and along the rivers (in the inland) after an overall consideration of the facilities for importing ships, the transportation of the dismantled materials, and the regions where they will be used. A ship dismantling base will be set up step by step in China along with the establishment of a number of key enterprises for ship dismantling throughout the country. The scale of production in ship dismantling, or the appropriate annual capacity of ship dismantling to be planned for, should be studied on the basis of three factors: first, the amount of scrap steel from dismantled ships and of rolled steel required on the domestic market; second, the state's financial resources, especially the ability to pay in foreign exchange; and third, the characteristics of production in the ship dismantling industry. These characteristics are attributed to the fact that production of this type depends mainly on the source of scrapped ships. The productive capacity must be flexible so that it can be stretched a little to handle a greater workload or reduced a little to maintain production.

Second, we must treat the increase in the competitive power and the improvement of economic results of the ship dismantling industry as an important factor in its development. In China's ship dismantling industry, the problems of long dismantling periods, high consumption and low utilization of recovered materials are very common. In dismantling a 5,000-ton ship, for example, we generally need 2-4 months, whereas South Korea needs only 1 month. For dismantling each ton, we consume 1.7-2 cylinders of oxygen, 10-12 kg of calcium carbide and 1.8-2 man/days, whereas Japan generally consumes 0.8 cylinders of oxygen, 7 kg of calcium carbide and 0.5 man/day. To improve the economic results in this industry, we must pay great attention to management, to technical advancement, and to the intensive processing and comprehensive utilization of the dismantled materials, besides organizing unified action in buying scrap ships from abroad to reduce our expenses in the purchase. We should also encourage competition. In the ship dismantling industry, there will be competition in three different ways: first, competition with the same industry of other countries in prices for the purchase of ships and in benefits from the dismantling; second, competition between different ship dismantling enterprises in the country in the speed and quality of dismantling, the quality of materials delivered, and the regular payment of installments for the ships; and third, competition with other units--which import rolled steel and scrap steel--for better economic results, so that it would be more worthwhile to dismantle ships than to import rolled steel and scrap steel directly in view of the foreign exchange saved and the larger amount of materials obtained. The ship dismantling industry must compete in these ways to survive.

Third, environmental protection in ship dismantling is a major issue for the survival and development of this industry and a very important matter concerning the welfare of the future generations. With the support and assistance of the State Environmental Protection Bureau, the China Ship Dismantling Corporation is regarding this work as an important aspect of the consolidation of ship dismantling yards. Pollution from ship dismantling is now basically controlled, and great success has been achieved in environmental protection. The state has stipulated that no ship dismantling yards can be set up in scenic spots or places with historical relics; that education in the environmental protection law and the rules and regulations for the prevention of sea pollution by ships should be carried in earnest; that all ship dismantling yards should be equipped with oil-water separators, oil-prevention cables and other necessary devices; and that a set of rules and regulations be formulated for the prevention and monitoring of pollution so that the pollution from ship dismantling could be confined strictly within the limits set up by the state.

On the whole, China's ship dismantling industry has already embarked on the path of regular development, despite its late start. We must now seize the opportunity to take full advantage of China's strong points in this industry and work out practical plans for this industry to develop in a more healthy way.

9411
CSO:4006/1144

GUANGDONG'S INDUSTRIAL GROWTH RATE DISCUSSED

Guangzhou KAIFANG [OPEN POLICY] in Chinese No 5, 8 May 86 pp 5-8

[Article by Tang Weiying [3282 4850 5391], Li Lici [2621 4539 6337], and Zhang Fayuan [1728 4099 3293]: "Guangdong Should Aim for Moderate Industrial Growth"]

[Text] There is a good deal of public interest in the rate of industrial growth in Guangdong. People wonder, on the one hand, whether the rapid growth in the Sixth 5-Year Plan was normal and, on the other, what will constitute a reasonable rate in the Seventh 5-Year Plan. Based on our understanding of the situation, we put forward the following tentative views for public consideration.

An Analysis of the Rate of Industrial Growth in the Sixth 5-Year Plan

Because it firmly adhered to the party's line, policies, and principles since the 3d Plenary Session of the 11th CCP Central Committee, carried out reforms, pursued the open door policy, and invigorated the economy, Guangdong experienced a boom in industry and transportation during the Sixth 5-Year Plan unknown since the founding of the PRC. Industrial output value climbed steadily and continuously across the board, rising 20 percent in 1984 over 1983. It was valued at 46.086 billion yuan in 1985, a jump of 25.6 percent compared with 1984 and double 1980's 22.46 billion yuan. For 6 consecutive years, Guangdong chalked up a faster rate of industrial growth than the national average. During the Sixth 5-Year Plan, net increase in industrial output value amounted to 23.64 billion yuan, which translated into an average annual growth rate of 15.5 percent, topping all growth rates achieved in the previous 5-year plans.

The growth in the gross value of industrial output is accounted for by the following:

1. a surging collective industrial sector. The industrial output value of Guangdong's collective enterprises totalled 15.577 billion yuan in 1985, 9.053 billion more than in 1980, or 19 percent annually on the average. Collective enterprises constituted 33.8 percent of the province's gross value of industrial output in 1985, up from 29.1 percent in 1980.

2. steady growth in state-owned industry. The industrial output value of state-owned enterprises in Guangdong amounted to 27.68 billion yuan in 1985, 12.23 billion yuan more than in 1980, for an average annual increase rate of 12.4 percent. The annual breakdown was 9.97, 7.63, 11.53, 14.27, and 18.37 percent in 1981, 1982, 1983, 1984, and 1985, respectively, picking up steam year after year.

3. across-the-board growth of which every industry partook. Light industry recorded an output value of 30.061 billion yuan in 1985, up 118.77 percent over 1980, with a net increase of 16.32 billion yuan. Corresponding figures for heavy industry were 15.558 billion yuan, 78 percent and 6.861 billion yuan, respectively.

Let's look at the expansion sector by sector and industry by industry. In the 1980-85 period, the machine building industry grew 25.7 percent annually on the average; the textile industry, 19.5 percent; and building materials industry, 16.4 percent. Turning to the product mix, daily consumer goods, especially durable consumer goods, enjoyed a phenomenal growth. From 1980 through 1985, refrigerator production shot up 9,900 percent; cassette recorders, 2,060 percent; washing machines, 2,500 percent; electric fans, 1,200 percent. During the same period, cement production rose 179 percent, while that of hand-held tractors expanded 219 percent.

Directly contributing to rapid industrial growth in Guangdong are the following reasons:

1. An increase in production capacity resulting from rising capital spending in industry. For a long time in the past, owing to a number of reasons including the emphasis on class struggle and the policy of national isolation, Guangdong was not a major recipient of capital expenditures allocated by the state. In the five 5-year plans before 1980, only a meager amount of investments was earmarked for Guangdong. By 1980, the fixed assets of all state-owned enterprises in the province had an original price tag of only 10.04 billion yuan, or 6.9 billion yuan net. Since the 3d Plenary Session of the 11th CCP Central Committee, particularly since the central government authorized Guangdong to implement special policies and flexible measures, the province has entered a crucial development stage, with municipalities, prefectures, and industries up and down the province using various ways to raise funds, which meant increased capital spending by industry and other sectors. During 1981-84, the province set aside 4.705 billion yuan, or 27 percent of all infrastructural investments, to finance 3,049 capital projects in industry. The focuses of this investment drive were the power industry, 981 million yuan; petroleum industry, 484 million yuan; chemical industry, 452 million yuan; machine-building industry, 418 million yuan (of which 231 million went to the electronic industry); light and textile industries, 418 million yuan; food industry, 837 million yuan (including 644 million yuan for the sugar industry); and building materials industry, 322 million yuan. During the Sixth 5-Year Plan, there was a net increase of 3.2 billion yuan in fixed assets in the province. If we follow the method of estimate used by the State Statistical Bureau and assume that one hundred yuan worth of fixed

assets produces 180 yuan worth of output, taking into account Guangdong's high costs of production, about 24 percent of the net increase in output value could be attributed to the new fixed assets.

2. The modernization of old enterprises and the push for technical modernization. During the Sixth 5-Year Plan, 6,877 technical modernization projects (including a number of unfinished holdover projects) went under way in the province's industrial and transportation sectors, involving a total of 8.94 billion yuan, of which $1.128 billion were in foreign exchange. The thrust of modernization was directed at such industries as light, textiles, electrical machinery, energy, and raw materials; at the improvement of product quality, and at new product development. All enterprises whose modernization efforts were incorporated into the state or provincial plans could become key enterprises with an advanced technical level and producing good-quality products. Enterprise modernization has not only had a tremendous impact on immediate production, but also provided development with fresh momentum.

3. Adjustments and changes in the industrial structure. Even as it carried out the eight-character principle on how to restructure the national economy, Guangdong has taken pains to adjust its industrial structure and product mix in the light of provincial realities, fully exploiting its strengths and avoiding its weaknesses. The share of leading industries, such as power, petroleum, chemical, machinery, building materials, food, and textiles, of the province's gross value of industrial output rose to 76 percent in 1984, up from 54 percent in 1981, and made further gains in 1985. This increase in output value was due to structural adjustments and efforts to tap the potential of enterprises as well as additional capital spending and modernization. It accounted for about 50 percent of the net increase in the province's gross value of industrial output.

These are the major reasons for the sustained rapid growth enjoyed by Guangdong industry. They have done much to increase the production capacity of neglected industries, exploit the strength of the light and textile industries, make enterprises more competitive, and improve the key proportionate relations in the provincial economy. During the Sixth 5-Year Plan, not only did industry grow apace, but economic benefits also improved substantially. State-owned industrial enterprises in the budget realized a 52.26 percent increase in output value in 1985 compared with 1980, while profits and earnings from sales soared 50.83 and 61.26 percent, respectively, thus achieving the "three simultaneous increases." Meanwhile, the quality of industrial products rose about 85 percent. Over 1,561 kinds of products won quality prizes from the national government, the ministries, and the province, and more than 10,000 new products were manufactured and put into production on a trial basis. Consumption of energy and raw materials dropped: From 1980 through 1985, energy consumption per 100 million yuan worth of industrial output shrank 27.5 percent to 36,400 tons of standard coal, saving 4 million tons of standard coal in all. Industrial profits and taxes paid to the state also rose year after year, with the 5-year total topping 17 billion yuan, providing a reliable revenue source essential to the enrichment of the coffers of the province.

It is clear from the above analysis that the rapid industrial growth in the Sixth 5-Year Plan was based on a rising production capacity and economic efficiency and was therefore normal.

Certainly, there are problems even in the midst of progress which cannot be ignored, notably:

1. Over-investment in fixed assets, the loss of control over credit and foreign exchange for a time after the fourth quarter of 1984, and the fragmentation of the power to examine and approve imports have given rise to new problems in industrial planning and commodity allocation. The investment explosion in fixed assets caused consumption funds to expand excessively and led to a sharp rise in consumption demand. During the Sixth 5-Year Plan, total investments in social fixed assets in Guangdong are expected to hit 55.48 billion yuan, up 349 percent over the Fifth 5-Year Plan. Of this, 1984 accounted for 13.433 billion yuan, 3.38 billion more than in 1983. Assuming that about 40 percent of each yuan invested end up as consumption funds, the Sixth 5-Year Plan saw such funds expand by 211.9 billion yuan. The result was higher prices for means of production and means of consumption, which, in turn, meant rising production costs that production enterprises had difficulty absorbing.

2. Uneven development between municipalities, prefectures, and industries. According to 1984 statistics, the gross value of industrial output of the 47 mountainous counties constituted only 9 percent of the provincial total, entirely incommensurate with their area and population. Because of gross historical neglect, energy and transportation fall far short of meeting the actual demand. The disparity between electricity supply and demand, in particular, has become a yawning gap in recent years. Processing industries are growing by leaps and bounds, but Guangdong's inability to satisfy its own demand for raw materials will constrain its industrial growth.

3. Some enterprises are still poorly managed and obsoletely equipped. For them, technical modernization remains a daunting task. Owing to mismanagement, a number of enterprises are unable to adapt to changes, turn out inferior products, consume materials heavily, and lose money perennially. Disregarding social benefits, a minority of enterprises go after profits exclusively. Some are so unscrupulous that they even pass off fakes as the real thing and produce shoddy merchandise, resulting in unjustifiable waste.

Forecasting The Rate Of Industrial Growth In Seventh 5-Year Plan

On the basis of rising efficiency, Guangdong industry achieved a respectable rate of growth in the Sixth 5-Year Plan. What would be a reasonable rate of growth that we should aim for in the Seventh 5-Year Plan? To answer this question, we should combine objective needs with actual possibilities and look at the matter analytically.

About objective needs. First, we must maintain a basic equilibrium between total social demand and total social supply. This is an important principle we must observe when we plan industrial production and even the development of the overall economy. Given the present situation in which total social demand outstrips supply, we must boost production, particularly that of industrial products much sought-after in the market, as well as taking measures to check total demand. Second, Guangdong is a province which carries out special policies and flexible measures. The central government demands that Guangdong move one step ahead of the others as far as reform and the open door policy are concerned and serve as a pacesetter in the four modernizations. Third, Guangdong industry expanded 15 percent annually during the Sixth 5-Year Plan, consistently behind such advanced provinces as Zhejiang and Jiangsu. In view of the demand that the we do better in the Seventh 5-Year Plan than the Sixth, industrial growth must be maintained at a fairly brisk pace.

What circumstances bode well for brisk industrial development? What are the possibilities? To begin with, as a result of adjustment, restructuring, reform, and invigoration in the previous 5 years, we now boast a host of competitive and economically efficient enterprises and a range of products with a solid international reputation. Second, the 10 billion yuan we invested in capital projects and technical modernization in the Sixth 5-Year Plan have significantly boosted our production capacity. Besides, the technical modernization of existing enterprises remains a priority during the Seventh 5-Year Plan, providing a shot in the arm for technical progress so crucial to keeping up industrial growth. Third, energy and transportation, the weak links in our economic chain, are expected to be strengthened. Generating sets with a capacity of over 2 million kv will be built during the Seventh 5-Year Plan. After they go into operation starting next spring, electricity shortages will ease gradually, something that can only benefit the entire national economy. Fourth, we must make it onc of our major concerns to step up enterprise management with extensive efforts to "be innovative, make the grade, and improve quality." This will provide a tremendous driving force for fast industrial growth.

In accordance with the principle of seeking truth from realities, we must take into account both needs and possibilities in determining the rate of industrial growth. We must not upset the scale of investments in fixed assets, credit, and consumption funds. Nor can we spend foreign exchange recklessly. On the other hand, we must energetically overcome difficulties and create a favorable climate. After repeated deliberations, the provincial government has decided that industry should grow 10 percent in 1986 in the province as a whole. This is a right thing to do if we are to maintain an appropriate growth rate. We propose that industrial expansion in the province should neither fall below 10 percent nor exceed 15 percent. In deciding their own rate, all municipalities, prefectures, and industries must base themselves on realities. There should be no attempt to impose uniformity arbitrarily. Nor should units try to "keep up with the Joneses."

12581
CSO: 4006/1099

INDUSTRY

NEW DEVELOPMENT OF SHAANXI'S METALLURGICAL INDUSTRY

Xian SHAANXI RIBAO in Chinese 22 Mar 86 p 1

[Article by Cao Shangyu [2580 1424 2509]: "There Will Be New Developments in Shaanxi's Metallurgical Industry"]

[Text] According to information received at a recent provincial conference on the metallurgical industry, there will be some new developments in this industry during the Seventh 5-Year Plan.

The average growth rate in Shaanxi's metallurgical industry during the Sixth 5-Year Plan was 10.2 percent each year. This marked the beginning of steady growth. However, this industry was still a weak link. During the Seventh 5-Year Plan, the average growth rate will be 12 percent each year so that in 1990, total output value will reach 650 million yuan; annual steel output will reach 500,000 tons; that of rolled steel, 400,000 tons; and that of pig iron, 400,000 tons, an increase of 45.8 percent, 64.9 percent, and 99 percent respectively over the end of the Seventh 5-Year Plan. Some existing enterprises, such as Shaanxi Gang, Xi Gang, Shaanxi Precision Alloy Plant, and Hancheng Foundry will complete, step by step, a number of projects in technical transformation including the expansion of a 20-ton electric furnaces, building 30-ton electric furnaces and continuous casting machines, increasing the capacity of 100 cubic meter blast furnaces, importing 4-roller and 20-roller presses, and setting up 300,000-ton coal dressing workshops in order to further increase the capacity for iron and steel output and to improve the quality of products. At the same time, in accordance with the decision of the provincial government, the building of Hanjiang Iron and Steel Plant, a key enterprise, will be resumed. The first project to be completed during the Seventh 5-Year plan is for the extraction and selection of iron ores in Yangjiaba Mine with a capacity of 800,000 tons for both extraction and selection. This year, 10 million yuan has been invested in the provincial projects. A coke and gas plant will also be built in Hanyang with an annual capacity of 350,000 tons. This plant will not only produce coke for the steel industry, but also supply 200,000 cubic meters of gas to the city each day.

9411
CSO: 4006/987

INDUSTRY

SHENYANG'S OLD ENTERPRISES COMPLETELY TRANSFORMED

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 29, 21 Jul 86 p 17

[Article by Jiang Min [1203 2404] and Zhao Xueshan [6392 1331 1472]: "Shenyang's Old Enterprises Are Completely Transformed"]

[Text] Adoption of the general policy of opening the country to the outside world and invigorating China's domestic economy has enabled Shenyang, the famous heavy industrial base, to undergo new developments. No longer is Shenyang carrying out an extensive development policy of launching new projects and expanding old ones behind closed doors. Instead, it is now paying attention to the transformation of traditional industries with advanced technology and equipment in an effort to follow the road of intensive development.

Over the past several years, Shenyang spent more than 310 million yuan to import from abroad 560 pieces of advanced technology in addition to energetically adopting advanced domestic technologies. The industrial departments of the city have invested 2.58 billion yuan in technical improvements, a 13-fold increase over the Fifth 5-Year Plan (from 1976 to 1980). By now, 3,253 projects have been built and put into operation.

Major Equipment Updated

Shenyang is a comprehensive industrial city with machine-building as its principal industry and other industries, including those of metallurgy, chemical engineering, pharmaceuticals, light industry, textiles, building materials, electronics, and aviation. There are more than 3,400 industrial enterprises. Because most of these enterprises were built in the 1930's, their equipment, technologies, and products are obviously outdated. This seriously affected their production, and their transformation is urgently needed.

According to the city's statistics on 150 key enterprises to be transformed in 20 major occupational fields, 13,771 sets of major equipment of international standards of the late 1970's and the early 1980's have been either renovated or acquired. Among these are 2,352 imported sets, and 46 production lines for dry cross-linking power cables, high-pressure hoses with steel webs, air conditioners, temperature control devices, computers of M68 series, high fidelity sound systems, color TV sets, half-wave wat.. setting and coating.

Some key trades have imported and adopted new techniques of advanced international levels for major reforms in the basic techniques. The machine tool trade has adopted the MZA high-precision gear grinders which can upgrade the precision by two levels, and raise the proportion of first-grade products from 30 percent to more than 80 percent. . The No 1 and the No 3 Machine Tool Plant, the Water Pump Plant, the Casting Plant, and the Heavy Machinery Plant have extensively adopted a new foreign method using resin crystals and are now able to increase the luster of the casting surface with the quality up to international standards. The electronic trade has adopted the wave)crest welding methods from some foreign country and this method not only increases the efficiency but also raised the up-to-standard rate of printed circuit boards from 85 percent to 100 percent. The chemical trade has adopted the new triple*efficiency retrograde evaporation technique in place of the double)efficiency forward flow evaporation technique and thereby save a huge quantity of energy.

At the same time, with the imported test instruments of advanced international levels, Shenyang has established 16 key test centers at the national, regional and trade levels. Among them are the largest water pump testing station in Asia, the national monitoring center for hardware products in daily use, the Northeast Leather Testing Station, and so forth. The Hushitai High Voltage Experiment Yard of the Northeastern Testing Station for Power Transmission and Transformation built last year can not only meet the requirements for testing 500,000 volt transmission and transformation, but also conduct experiments of 100,000-ampere open circuits. It can also conduct routine experiments for low voltage electrical appliances and antiexplosion electrical devices.

Mechanical and Electrical Products To Catch Up with International Standards

Shenyang's mechanical and electrical products have been enjoying national fame. In the past several years, Shenyang has supplied 11 sets of heavy power transmission and transformation equipment for the Gezhouba and Longyangxia hydropower stations, the Yuanbaoshan power generation project, the Jinjing 500,000 volt power transmission and transformation project, and the Jing-Qin double track electrification project. It has also supplied seven auxiliary items for eight large coal mines. In 1985 alone, the sales of products used in key construction projects in various parts of the country amounted to 495.8 million yuan, 66 percent of the total sales of mechanical products.

The large transformers of more than 8,000 kva produced by Shenyang Transformer Plant are supporting not only the complete sets of power transmission and transformation equipment for the superhigh voltage lines in Yuanbaoshan, Jinzhou, Liaoyang and Haicheng in the northeastern power grid, but also 70 other key projects including the second-stage and third-stage expansions of the Shentou Power Plant in Shanxi and the first-stage engineering project of Baoshan Iron and Steel Complex in Shanghai. The Shenyang Power Cable Plant is supplying large quantities of stranded aluminum cables with steel cores, power cables and power control cables to 44 key construction projects including the Tiefa Mine, the Liaohe Oilfield, and the Baishan Hydropower Station in Jilin. The Shenyang Water Pump Plant has supplied nearly 10,000 pumps to the power generating stations in many sectors of the national economy including petroleum industry, chemical industry, mining and communications. In the past 5 years, this plant sold 5,200 sets of high-efficiency energy-saving water pumps. The efficiency of these pumps has been raised from 69 percent to 80 percent, and each year, they helped save 800 million kwh of electricity or 80 million yuan. The Shenyang High-Voltage Switch Plant has trial manufactured and developed 32 new products for the state's key projects. These new products include power generator circuit breakers, 500,000-volt isolated switches, and air circuit breakers, all up to the advanced international levels. In the past several years, this plant supplied more than 1,000 set of new products to equip the Gezhouba Hydropower Plant in the Chang Jiang, the Baishan Hydropower Plant, and some electrified railways. It has also supported the 500,000-volt power transmission and transformation projects for the power lines in Yuanbaoshan, Jinzhou, Liaoyang and Haicheng of the Northeast and between Datong and Beijing. For the projects of this type in Yuanbaoshan, Jinzhou, Liaoyang and Haicheng alone, the plant has supplied 196 sets of isolated switches of 220,000-500,000 volt and KW5-500 air circuit breakers.

Future Development Goals

As a key city during the Seventh 5-Year Plan period, Shenyang has set three goals in its economic and social development strategy in the following order:

First, Shenyang is to become a versatile economic center in the northeastern region. It will broaden its economic development plans to include the central part of Liaoning as well as the entire northeast region and devote its efforts to to increasing and improving the economy and services of this region and becoming a versatile economic center for the northeast in terms of foreign trade, finance, transportation and communications, technology, information, and labor..

Second, Shenyang is to become a leading city in China's modernization program. Focusing Shenyang will concentrate on the advancement of the machine industry and try to meet the world's advanced standards. It will absorb the achievements of the world technological revolution to improve the ability of Shenyang industries in creating new things. It will try to become an important gateway to the full use of foreign capital and imported advanced technologies and furthermore, disseminate the things it has absorbed to the rest of the country in clear stages.

Third, it will join the international economic system and become an international city in the Asia-Pacific Region. It will consciously take part in projects calling for international economic and technical cooperation. and continuously expand its foreign trade. It will strive to become by the end of this century one of the modern industrial cities representing China's higher economic and technical standards and a city that can play a definite role and become a strong influence in the affairs of the Asia-Pacific region.

9411
CSO: 4006/1242

SMALL-SCALE ENTERPRISES

SUCCESS OF LEADING TOWNSHIP ENTERPRISES ANALYZED

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 11 Jun 86 p 1

[Text] In 1985, 729 counties in China, or 26 percent of all county-level units, had township and town enterprises with a gross output value topping 100 million yuan. Most of these counties are concentrated in the economically developed regions. Between them, east China and south central China accounted for 467 counties, or 64 percent of all 100-million-yuan counties. The gross output value of the 729 counties amounted to 199.9 billion yuan, 73 percent of the total output value of all township and town enterprises in the nation.

Wuxi County, Jiangsu, where enterprises grossed 3.47 billion yuan, topped the list of counties with 100-million-yuan township and town enterprises. It was followed by Shaoxing County, Zhejiang, with 2.62 billion yuan; Jiangyin County, 2.53 billion yuan; Shazhou County, 2.4 billion yuan; Wujin County, 2.36 billion yuan; and Changshu County, 2.22 billion yuan. The last four counties are all in Jiangsu Province. In addition, statistics collected in six provinces and one municipality show that township and town enterprises in 73 townships have output value in excess of 100 million yuan. Of the 73 townships, Jiangsu accounts for 55; Shandong, 7; Guangzhou, 6; Henan, 3; Hebei, 1 and Shenxi, 1. The township with the highest output value is Qianzhou in Wuxi County, with 250 million yuan, followed by Ninghai Town in Mouping County, Shandong, with 230 million yuan.

Common to all these places are their reasons for success: They have upgraded product quality, mastered technology, and come to grips with management in order to improve economic efficiency. Township and town enterprises in Shazhou County say it well, "Enterprises compete on the strength of their product quality. To produce quality products, they need technology, which, in turn, depends on skilled personnel." Jiaomu Electrical Appliance Plant in that county follows the "three haves and three responsibilities" system, that is, they have an established organizational setup and personnel, a rigorous management system, and a set of testing procedures, and holds itself accountable for "quantity, quality, and consumption." As a result, the approval rate of its products has gone up from 97 percent in 1984 to 98.5 percent. Three of its products were rated first, third, and fourth, respectively, among similar types of products in the nation. To improve the quality of its enterprises, the municipality of Wuxi has set aside 70 percent of its management funds to finance professional training and offered 2 training courses for the achievement of excellence for 128 management cadres last July and August. So far 9 products from the county have achieved excellence at the ministry or provincial level, and 25 products have won ministry or provincial scientific achievement awards and outstanding new product awards. The No 2 Undergarments Knitting Mill in Wuxi County imports to export. It imported from abroad over 140 pieces of advanced equipment and has used them to manufacture silk undergarments, polyester-cotton T-shirts, and embroidered garments for export to 26 countries and regions, including the US, the Federal Republic of Germany, and Japan, earning a total of $4.9 million in foreign exchange last year. Dongfang Electric Watch Factory in Enping County, Guangdong, has adopted advanced computer welding technology to double its output and upgrade the quality of its products to match the best in the world. Its products, all exports, have been extremely well received by foreign businessmen.

12581
CSO: 4006/1157

CONSTRUCTION

ISSUES CONCERNING URBAN, RURAL CONSTRUCTION DISCUSSED

Beijing JIANZHU [BUILDING CONSTRUCTION] in Chinese No 4, 7 Apr 86 pp 2-4

[Summary of Speech by Xiao Tong [5135 2717] at Yunnan Provincial Conference on Urban and Rural Construction and Environmental Protection: "Several Questions Concerning Urban, Rural Construction, and the Construction Trade"]

[Text] Today, in the capacity of a construction department adviser, I would like to present my views on certain questions concerning urban and rural construction and the construction trade.

I. Question of the Role of Urban and Rural Construction and Environmental Protection in Social Development

Comrade Wan Li [5502 6849] had several meetings with the mayors who were students of research classes. On each occasion, he urged the mayors to devote their energy to city construction and management. He said that although the time-honored practice of mayors managing plants and plants managing society could not be changed overnight, some changes should still be made step by step in the future. The key factor is that the mayors must exercise their main function in city construction and management and in the improvement of urban and rural construction and environmental protection.

Urban and rural construction must meet the requirements of the four modernizations. In developing a high level of material and spiritual civilization, I believe that urban and rural construction should play a very important role.

The situation of urban and rural construction has been really fine since the Third Plenum of the 11th CPC Central Committee. Judging by the standards of modern cities, however, our cities are still lagging far behind. We are now in the age of "upgrading and updating," and must introduce some modern and advanced supportive facilities to transform our backward cities and to give them a new appearance. The same theory applies to rural construction. During this transitional process, the comrades in charge of urban and rural construction must bear a historic responsibility.

How is our situation now? I believe that although people generally are beginning to recognize the problem in city planning, city management is still inadequate because our work in this respect is backward. Soon after the completion of a small area, the spontaneous forces would again assert themselves, and buildings in disarray will become an eyesore. In city planning and city construction, the aesthetic element of individual buildings or groups of buildings is rarely appreciated, and little consideration is given to the arrangement of blocks. Interior design also receives little attention in most building projects; its importance is recognized only for some buildings (for tourists, for example). That is why we are so backward in indoor fixtures. Some comrades, obssessed with the old conventions are not aware of this requirement even now. We must note that in some areas which are relatively developed economically, the residents have begun to express their desire for the improvement of indoor fixtures. Thus our work is lagging behind the people's requirements. As for the question of environmental design, which also applies to housing density, courtyards, tree-planting, sculpture, etc., and concerns not only the individual beauty, but also the overall beauty of the structures, we are even more backward.

Our mayors, especially those comrades in charge of urban and rural construction, must note this trend. Even though our progress in practice may be only gradual, we must still plan for the development carefully so that we will not leave over these difficult problems to our offsprings. We should complete several jobs each year according to plan, have less empty talks, and do more real work. We must have some strategic foresight in urban construction, and our work must conform to the social development plan. Urban construction is a task which lasts hundreds or even thousands of years. We must consider all aspects of the situation instead of the immediate benefits. Construction serves as a milestone of the age. We must be aware of the important role of urban and ural construction, pay attention to its development strategy, implement this strategy step by step, and prove our worth for this historical task through our dedication and sense of responsibility in making our urban construction and management a success.

II. Question of General Development

In urban development, all countries in the world are now confronted with these problems: first, transportation; second, population growth and housing needs; and third, environmental pollution in industrial development. The same problems exist in China's urban construction.

The problem of urban transportation has become increasingly serious in urban development. The infrastructure of an entire city, including highways, bridges, water supply, water drainage, flood prevention, gas supply and so forth, is also a serious problem in our urban development. Some people said that we have this problem simply because of our long negligience in the past. The element of "negligience" did exist, but the main cause is the pressure brought forth by urban development. We have done a great deal of work in trying to solve the housing problem, but will have to spend 10 to 20 years in accomplishing a real solution. In the matter of housing, we must have not only a quantitative concept (concerning the average number of square meters of floorspace for each person), but also a qualitative concept concerning the way to improve the quality of buildings as well as the way for future transformation. In other words, we must improve the facilities inside the houses. The problem of environmental protection is even more striking.

In urban and rural construction and environmental protection, there are the problems of "money" and "management." Many localities have complained that the infractructure of cities are inadequate for urban development. The same problem has been emphasized in the the reserch classes run by the Ministry for mayors. In his speech, Comrade Li Peng [2621 7720] recommended the method used in Changzhou and also mentioned that in solving this problem, we first need money from the state. While the government should do more for the large infrastructural projects, the localities should also spend some of their own money on the projects too. Second, we must mobilize all the positive factors to increase our production and financial resources. I firmly believe in the principle of people's cities and people's construction.

As for urban transformation and housing construction, it is my opinion that the method of comprehensive development and housing commercialization should be adopted.

Comprehensive development is an important way to mobilize all positive factors for the transformation of the city's appearance. Practice has proved its advantages (1) in the systematic implementation of city plans (2) in land conservation and in working out a rational layout within an area; (3) in raising social funds and accelerating housing construction and city transformation; (4) in helping the users so that many building units can reduced their manpower and problems; (5), in substituting economic means for the former purely administrative means and in increasing the state's accumulation. The method of comprehensive development has become more and more popular, now that many localities throughout the country have benefited from it. The comprehensive development and the acceleration of housing commercialization were affirmed in the Proposition for the Seventh 5-Year Plan.

Comprehensive development is different from the development of ordinary enterprises and companies; it must rely on government support. In handling such problems as land requisition, demolition and relocation, construction layout, and the supplies of water, electricity and gas, we must count on strong government support and coordination. The leading comrades in all prefectures and cities should support this reform.

In the construction of cities and development of tourism, I have always been in favor of preserving and developing the scenic spots and cultural relics in order to make the cities more attractive. In city design and the preservation of cultural relics, we should, as I believe, "choosing some topic to play up," meaning that we should cull something from the cultural traditions in China's long history to be used in collaboration with urban construction in order that our urban and rural construction could aptly picture China as a civilized ancient country. In developing the cultural relics and scenic spots of cities with some minor architectural embellishment, we can draw materials from the local myths, folklores or historical traditions. This is called "choosing some topic to play up." This is of great significance in promoting tourism by adding to the attractions of the scenic spots for sightseeing. The same idea, in my opinion, should be adopted for the minor architectural and sculptural embellishments in building city parks and transforming the cities. The comrades in charge of urban construction should know something about architecture and aesthetics. An Italian architect once said: "A doctor's incompetence may cause death; but an architect's incompetence may be a source of regret by humanity." Our city planners and builders should use beautiful structural landmarks to reflect our great epoch, and these landmarks should never be a source of regret for the future generations.

III. Question of Construction Trade

I will first talk a little about the matter of concept. The work of our ministry, whenever mentioned, would give rise to the "five major blocks," meaning, urban construction, rural construction, environmental protection, the construction trade and the mapping trade. These "blocks" refers mainly to our ministry's work as a category with no distinction between the work and the trade itself which are under different categories. If they are analyzed from a scientific point of view, I am of the opinion that the work as a category refers to urban and rural construction and environmental protection, while the construction trade is a branch of material production. Capital construction comes under the category of work, but not that of a trade. The construction trade represents the productive forces in urban and rural construction and capital construction.

What is a construction trade? It is a material production branch engaged in the production and reproduction of fixed assets. According to the international classification of trades, construction belongs to the second trade. The classification of trades in the national economy proclaimed by China (in December 1984) consists of 13 categories, and construction belongs to the fourth category and includes three major branches: (1) civil engineering, including the building of railways, highways, tunnels, bridges, dikes, telephone networks, wharves, airfields, playgrounds, factories, theaters, hotels, hospitals, stores, schools and residential houses; (2) the installation of equipment for railways and pipes, including the putting up of power lines, communication lines, the laying of petroleum pipes, natural gas pipes, gas pipes, and water pipes, and the installation of heating, hot water supply,and sewage drainage facilities; and (3) prospecting design trade including the independent prospecting design units established by various central and local business departments in charge, such as the design academies and branch academies and the prospecting companies. Our present confusion is mainly caused by the departmental demarcations which obliterate the boundaries between the categories of work and trades.

As a material production branch, the construction trade produces commodities. Design and construction work are merely a productive process, during which, the construction enterprises must be responsible for the final product according to the contract.

The construction trade must have a distinctive product concept. The basic function of this trade is to build house or other structures. Our responsibility for the product also means our responsibility to the people. We must supply to the people suitable, safe, economical, and aesthetic construction products. Some emphasis on aesthetic taste can be highly useful in enriching architectural creation and raising the standards of designs. In discussing the "Outline of Construction Technology" recently, the Ministry called for the implementation of the policy of suitability, safety, economy and good appearance as the main task in order to provide houses and facilities of various types for production in the society and for the people's livelihood in the urban and rural areas in addition to a pleasant spatial environment for the creation of social wealth and the accumulation of state funds. The question of good appearance is not only one of money; it is a crucial question of the ideology behind the methods of designing. Many localities have spent a great deal of money on construction but failed to achieve a good appearance. The supply of suitable, safe, economical and aesthetic construction products is a manifestation of responsibility to the people as well as the attainment of good economic results for the society.

A construction product is the composite result of many different factors. The question we raised on the final product is intended for the solution of the problems in various factors, including, first, the artistic level of designs; second, the guarantee for working smoothly; and third, continued updating and upgrading so that the materials and accessories used will be up to the required standards. The contracting enterprises must have a strict responsibility system throughout the duration of work in order to ensure the supply of suitable, safe, economical and aethetic products.

The purpose of this year's reform in the construction trade is mainly to "consolidate, assimilate, supplement and perfect" the achievements in last year's reform. At the same time, it should prepare the way for some important steps to be taken in the reform during the next 2 years. The consolidation and management of the system of public bidding are the core issue, since they are the components of capital construction plans and of the system of contract responsibility adopted by the construction trade, and must, therefore, be well managed. In our trade, while stimulating the microeconomy, we must also carefully solve the problem of professional etiquette. We must strengthen the ideological-political work, set up strict responsibility systems, and actually solve the problems in this respect.

This year, we must continue to control the scale of capital construction investment, even though the main trend in the construction trade is now favorable. In the next several years, or possibly up to the turn of the century, the construction trade will continue to flourish for the following reasons: first, the need to strengthen the key projects; second, the appropriate development of industry and technical transformation; third, the people's housing requirements; and fourth, the strengthening of cultural and educational undertakings, in addition to various other social requirements. To meet all these requirements, we must carefully attend to the management, and particularly the further modernization of enterprises so that the construction trade will truly become a pillar of the national economy. We must never be contended with what we already have, and must strive to measure up to the standards of this age. We must include construction and decoration in our meeting agenda. Our first requirement is to develop the designs for construction and fixtures, to expand the work force, and to achieve specialization. Second, we must produce more materials for construction and decoration. As for the development of construction and decoration materials, one way is for us to import advanced foreign technologies, such as the technologies for producing sanitary equipment, kitchen utensils, etc. Another way is for us to look for some of our national quintessence to be modernized. The general trend is now toward the development of materials for fixtures and decoration and the continued improvement of their quality. We must note this trend and train our personnel accordingly. We must accurately assess ourselves and discover our shortcomings through comparison with others before we can continue our progress.

The development of urban and rural construction requires a strong and competent construction trade. We must effectively reform our construction trade and improve its professional quality before we can better serve urban and rural construction as well as the people.

9411
CSO: 4006/987

CONSOLIDATION OF CONSTRUCTION MARKET DISCUSSED

Beijing JIANZHU JINGJI [ARCHITECTURAL ECONOMY] in Chinese No 5, 18 May 86 pp 2-3

[Article by Fu Renzhiang [0256 0088 4545]: "Consolidate the Construction Market as an Impetus to the Reform in Construction Industry"]

[Text] Recently, many localities began, one after another, to consolidate the construction market and to correct certain unhealthy tendencies in contracting engineering projects. Some comrades do not clearly understand why the construction market has to be consolidated and what should be rectified during the consolidation. They are afraid that achievements already gained in reform may be affected and that further implementation of the reform program may be difficult. These fears are not totally unjustified. Realistic answers to these questions are very necessary for a unity of thinking and the success of the consolidation.

At present, probably no body can deny that China's construction market is developing from one of a sealed-off type to that of an open and competitive type; that departmental barriers and regional blockades have been removed; that the situation of separation between urban and rural areas, in which state-owned enterprises and urban collective construction enterprises operate exclusively in the cities while the rural construction teams can only operate locally, is drastically changing; and that a dynamic situation of competitions has already been created. A thriving construction market has brought some changes to construction enterprises. Instead of being responsible to higher authorities, they are now responsible to customers, and vertical relations of production have been replaced by horizontal ties for production of commodities. With great decisionmaking power in their business operations, enterprises have taken a gigantic step forward in becoming socialist commodity producers and independent dealers with sole responsibility for their own profits and losses. These are important indications of success in the reform of the construction industry. However, we cannot deny that although markets have been stimulated, management is lagging behind. Some out-dated rules have not been abolished and are still being enforced, and while the new rules and the legal system have not been perfected, certain willful violations have occurred. Some people have taken advantage of loopholes to make private gains at the expense of the state and the people under the guise of reform, and some ugly social phenomena have resurfaced to disturb the socialist market. These two problems have different characteristics, and call for call for different solutions, but they must be dealt with seriously. Practice has shown that the extent of microeconomic flexibility is decided by macroeconomic power. We must not stress flexibility and neglect management, or substitute contracting for management. Nor can we interpret the opening of the construction market as unconditional and unrestricted free trade. In consolidating the construction market, we must strengthen macroeconomic management, perfect the legal system, and intensify the reform. Consolidation is a constructive and positive instead of a negative measure. If the reform of the construction industry starts early, problems will also be brought to light early; and if we can solve newly emerging problems in time, we will be able to advance more quickly under new conditions.

What has to be rectified during the consolidation? Some comrades regarded consolidation of the construction market as the consolidation of the construction industry and construction enterprises or some rectification in the reform. This is a misinterpretation. Consolidation of the construction market, consolidation of the construction industry, and the need to consolidate the construction industry are three different concepts, each with its own special meaning. Based on the requirements of the construction department, consolidation is necessary for the construction industry of only Beijing, and for the construction market of all other regions. Consolidation of the construction market means elimination of unhealthy tendencies and economic crimes occurring in the course of contracting. The primary purpose of consolidation is to ban unlicensed designs, unlicensed construction, and the practice of undertaking construction tasks without following regular procedures; and to detect and punish illegal activities of collusion between insiders and outsiders or between different administrative levels, of offering and accepting bribes to the detriment of the state and the consumers, selling business licenses, enterprise credentials and bank accounts, subcontracting for illegal gains, and such fraudulence as cheating on work and materials resulting in serious accidents, or the collapse of buildings because of poor quality work. The consolidation also aims at rectifying the practice of creating exorbitant charges by jacking up estimates with faked figures, blackmailing, and deliberately making things tough for others. Obviously, the substance of "banning" and "detecting and punishing" means dealing with the problems of law violations, while "rectifying" means dealing with the problems of business style in the execution of contracts. All these problems can disturb the construction market, jeopardize the reform, and threaten the continuating intensification of the reform. Therefore, the market must be consolidated. Consolidation will be mainly confined to the urban, but not the rural, construction market. The construction market is made up of buyers, sellers, and market control organs. Whoever creates these problems will become a target in the consolidation. The so-called buyers and sellers refer to parties with the status of legal entities in business transactions. Those without such a status cannot enter the construction market as direct contractors. The so-called market control organs at present refer mainly to those organizations serving both parties. If anyone in these organs engages in unhealthy tendencies for private gains by accepting bribes, or being partial to one party at the expense of the other, punishment will also meted out to him. However, many of the present problems are brought about by our failure to practice the public bidding system extensively and seriously, by imperfect management rules and weak management organs. There may also be people who can break away from these organ's control, though not opposing them. Serving as a go-between for both parties in some underground dealing or lending money at a usurious rate for private gains is a violation of law and will naturally be punished, while the culprits may be expelled from the socialist construction market.

Consolidation and reform are mutually complementary. Reform needs a favorable economic and social environment, and consolidation is precisely intended for clearing the way for the reform. If we allow unhealthy tendencies to spread unchecked, we will lose an excellent opportunity for reform and it will not be able to make further headway. In rectifying unhealthy tendencies, however, we would be allowing "leftist" ideas and traditional conventions to reassert themselves instead of seeking truth from facts and proceeding from realities if we base our judgement on personal feelings and do not distinguish between the two different types of contradictions; and if we do not clearly define the boundaries of different policies and even treat certain mistakes--which are unavoidable in the course of reform and innovation--as unhealthy tendencies, our action may nullify the achievements already made in the reform, and hinder the further implementation of the reform program. It is precisely for this reason that in consolidating the construction market, we must act in accordance with the spirit of the Party Central Committee of rectifying the party's work style. We must take a firm stand and have distinctive principles and policies. At present, many localities have worked out some rules and regulations in dealing with the questions concerning loopholes and unclear policy boundaries, such as what is general contract, subcontract and transferred contract? What are the services to be paid for? What are the "kickbacks" which should not be made? What are the mistakes and deviations in the reform? And what is meant by using tricks or force to make gains during the interim between the new and the old system? This shows the urgent need to strengthen macroeconomic control. According to the preliminary experiences in certain localities, however, two points are worth our attention: First, working out rules and regulations cannot substitute consolidation, because the prevention of future problems does not mean the nonexistence of old problems. We should persevere in uncovering the problems, study and solve them, and draw our lessons from experiences. This will help solve problems in ideology and in the systems and attain the goal of consolidation. Second, in working out rules and regulations, we must avoid being "overly rigid" and returning to the old path of "chaos immediately after flexibility and over-rigidity immediately after control." We cannot use the old rules again, which have been discredited in the reform, under the pretext of strengthening macroeconomic control; otherwise, even though things are "under control," it will be disadvantageous to the reform, and the consolidation will lose its significance. For example, some prefectures, cities and counties have made their own decision in indiscriminately demanding that all nonlocal design or construction teams entering and leaving their territories must possess letters of recommendation issued at the provincial level, and pay a heavy deposit in cash or credit instruments before being given any construction permit or being allowed to do any contracted work. This will not help in the development of the construction market of an open and competitive type. The relationship between consolidation and reform has not been streamlined. Reform is a historical process which cannot be reversed. In any type of work, including consolidation, we must pave the way for promotion of reform which is now the ultimate objective of the consolidation of the construction market.

9411
CSO: 4006/1144

CONSTRUCTION

WASTE IN CONSTRUCTION SITES DEPLORED

Beijing RENMIN RIBAO in Chinese 25 Jul 86 p 1

[Article by Xu Renzhong [1776 0088 0112]: "The Shocking Waste at Construction Sites Is a `Common Malady' Requiring Urgent Solution"]

[Text] Beijing, 24 Jul, XINHUA SHE--The prosperity of the construction industry in recent years has been universally recognized. However, as we can see from the consolidation of the construction industry in Beijing, the waste in construction sites is quite common, and in some cases quite serious.

When the construction department in Beijing was soliciting customer comments, the comrades of Qinghua University gave this account: When they were planting trees near a house built not long ago, a great deal of good timber amounting to 10 sq mm was found buried under the leveled ground. The timber was later dug out and two trucks were filled by them. In fact, it was not only timber that was buried. To save trouble while winding up the construction job, a push with the bulldozer would bury the reinforced concrete, bricks, stones, and even prefabricated boards to be discarded underground. A comrade of a construction company described it graphically: Cleaning up the construction site is like the "sweeping of a tornado," which soon turns well-mixed cement and sand, and a half, or even full bag of cement into a heap of "trash." Some people knowing the inside story said with poignancy: "Gold and silver are simply draining away from the construction sites."

According to a comrade of the construction department, waste in construction sites has become a "common malady" throughout the country. What is the cause of the waste? Based on the analysis of some experts, it is an unfortunate result of the erroneous concept that "corruption and bribery are crimes, but waste is not." It may also be due to some problems with the quality of the construction workforce and the construction materials, and with the coordination between design and construction, but the key issue is the system of management. To overcome the defects of requisitioning materials freely and without planning, using materials without accounting, and failing to protect the finished products, great efforts must be made in the direction of scientific management. The comrades of the construction department believe that in improving the system of fixing the amount of wages for every 100 yuan's worth of finished work and in rewarding conservation, we must consider the increasing proportion of materials and semifinished products in the construction cost as an important factor so as to eliminate the concept of "eating from the same big pot" in the use of materials, to promote the system of economic responsibility for both work and materials, to encourage conservation and raise the level of economic accounting and to use both materialized and living labor properly with realistic gains.

9411
CSO: 4006/1242

ANHUI DEVELOPS PLANNED COMMODITY HOUSING

Beijing RENMIN RIBAO in Chinese 28 Jul 86 p 1

[Article by Zhang Zhenguo [1728 2182 0948]: "Anhui Develops Commodity Houses Vigorously"]

[Text] In Anhui, government investment in sporadic house building is being gradually replaced by planned comprehensive development on a commercial basis. This experience is highly regarded by economics experts.

Anhui is one of the earliest provinces in China to develop commodity houses. Since 1981, more than 150 housing development companies have been established in the province. Last year alone, more than 1.4 million square meters of commodity houses--approximately half of the area of all civilian houses in the province--were completed, and the commodity rate reached about 50 percent. The difficult problem of housing for thousands or tens of thousands of enterprises, establishments, government organs and schools was thus solved. At the same time, many houses were sold at full prices to some workers and part of the urban and rural population.

There are many advantages in planned commodity housing. In late June, the ministries and commissions of the central government and the press units in the capital formed an inspection group which spent more than 20 days in an on-the-spot investigation in 12 cities and counties of Anhui. They unanimously agreed that the change to comprehensive housing development on a commercial basis has "three advantages."

First, fulfillment of the urban and rural construction plan. In the past, the money for urban housing came from the state, and the construction was not coordinated. In the countryside, people were even more free to act as they please in building houses. Now, house building is undertaken by the provincial, municipal, or county housing development companies according to plans and based on the demand of the housing market, and the houses together with the supporting facilities are built by streets and areas to be sold in lots or singly at different prices. This will eliminate the defects of each going its own way in building houses of the manor or the sealed-off types. The backward appearance of the cities in Anhui has undergone a great change.

Second, accumulation of state funds. The funds for housing development in Anhui are all raised by the society or through bank loans. Instead of spending any money, the state even withdrew more than 300 million yuan from circulation while the banks earned 10 million yuan in interest last year. The development companies too earned 10 million yuan in profits despite their scrupulous adherence to the principle of "protecting the capital and making only small profits" in selling their houses.

Third, increase in comprehensive economic benefits for the society. Comprehensive development according to plans, compared with sporadic building, can generally reduce the use of land by one-quarter, shorten the construction period by one-fifth, and greatly improve the engineering quality. It can also reduce the number of managerial personnel by 80-90 percent.

The comrades of the inspection group believed that in Anhui which is not yet economically developed, comprehensive housing development on a commercial basis can bring about gratifying changes in the appearance of the cities and the countryside. Their views will be an inspiration to commercialized housing development throughout the country.

9411
CSO:4006/1242

ECONOMIC COOPERATION IN BOHAI REGION DISCUSSED

Tianjin TIANJIN RIBAO in Chinese 27 May 86 p 1

[Article by Zhang Ying [1728 4481] and Li Lan [2621 1526]: "Mayors from Bohai Region Discuss Economic Cooperation"]

[Text] Horizontal regional economic cooperation will unite 14 municipalities and areas bordering Bohai. Yesterday the mayors of Dandong, Dalian, Yingkou, Panjin, Jinzhou, Qinhuangdao, Tangshan, Tianjin, Cangzhou, Huimin, Dongying, Weifang, Yantai, and Qingdaoshi got together to discuss the establishment of a conference of mayors for the Bohai economic region.

The 14 cities from Dandong to Qingdaoshi are linked by geography. Responsible comrades from cities taking part in the deliberations on the establishment of a conference of mayors unanimously agree that horizontal economic cooperation in the Bohai region not only results naturally from the development of a commodity economy in China but also meets the need of economic structural reform. If the 14 cities bordering Bohai each make full use of their own strengths in light of their respective economic development focus and actively cooperate with one another in a variety of ways on several levels, they will certainly turn unfavorable conditions into favorable ones, increase their productive capacity, and spur economic growth and prosperity.

Leading comrades on the CPC Central Committee take horizontal economic cooperation in the Bohai economic region very seriously and have personally given instructions concerning it. Relevant agencies such as the State Planning Commission, State Economic Commission, and State Restructuring of the Economic System Commission have also given it a good deal of support in many ways. During its short history from theoretical exploration to actual implementation, horizontal economic cooperation in the region has demonstrated a strong vitality and caught the attention of all quarters. That the mayors should get together is an inevitable consequence of this development. The meeting will examine in detail and approve an agreement on the establishment of a conference of mayors for the Bohai economic region. Other items on the agenda are the development of regional resources, the development of a technical market, the strengthening of economic information cooperation and the drawing up of a list of research topics. The meeting will last 5 days.

12581
CSO: 4006/1157

FOREIGN TRADE AND INVESTMENT

TRADE SHIFT TO CEMA SAID CAUSED BY DISCONTENT WITH FRG FIRMS

Duesseldorf HANDELSBLATT in German 22 Jul 86 p 7

[Article: "Bureaucracy and Inadequate Infrastructure as Hurdles to Cooperation Among Firms--Peking's 'Restrained Criticism' of FRG Companies"]

[Text] The East Asian Society (OAV) in Hamburg reports on restrained criticism by the Chinese of the German partners who from their point of view continue to be lacking in readiness to invest.

Yet, the FRG's China exports have increased significantly in the past few years--about 130 percent more, worth DM2.25 billion in 1985--which made it possible for the FRG to maintain its position as the fourth largest supplier of China behind Japan, Hong Kong, and the United States. According to the OAV, FRG investments, as compared to those of Hong Kong Chinese, Americans or Japanese, have in fact been modest to date. In the case of the latter two, as a rule we are dealing with "overseas Chinese" with Japanese or U.S. passports.

In contrast to this, the FRG stresses the fact that there are still too many obstacles in the country itself which stand in the way of readiness for increased commitment. Mention is repeatedly made in particular of a legal system which is imperfect from the Western perspective, a complicated bureaucracy, inadequate information, and the continuing inadequate infrastructure in respect to space connected with working and living conditions (due, in part, to exorbitant prices). In addition, according to the OAV, the fundamental weak point in any joint venture with China is the fact that the goods produced are almost exclusively destined for export and not to satisfy the growing demand in the Chinese domestic markets. The production quota of goods which can be sold in the PRC must be negotiated in advance on a case by case basis. The quota adheres strictly to what has been established by the planning authorities as domestic requirements in each particular sector of the market.

The OAV also sees a possible connection between the Chinese criticism and the growing deficits in China's trade with the large Western partners, Japan and the FRG. As a consequence and possible reaction, note must be made of China's increased trade with the Eastern European countries and especially the USSR. Last year's growth rates in trade with Eastern Europe were in part clearly above those with most Western industrial countries.

In addition to the political relations with Eastern Europe, which in the meantime have again improved, the decisive factor for this may well be that Chinese products are easier to sell in the CEMA markets. On the one hand this is due to artificial import restrictions (for example, on textiles in some Western countries) and to the consulting trade which is customary with the CEMA countries, but on the other hand is also due to the fact that a large number of Chinese products still encounter difficulty in gaining a foothold in Western markets because of quality, design, packaging, delivery service, etc. In contrast, facilitated sales opportunities in the CEMA countries contribute to balancing foreign trade, at least with these countries.

12124/9365
CSO: 4620/60

LIAOWANG ON REFORM OF FOREIGN EXCHANGE SYSTEM

HK291051 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 38, 22 Sep 86 pp 8-9

[Article by Shuang Mu [7208 2606]: "Reform of the Foreign Exchange System Is Brewing"]

[Text] Latest reports say that by mid July this year, China's foreign exchange revenue had increased by 16.1 percent over the corresponding period of last year while its foreign exchange expenditure dropped by 5.2 percent. This indicates that the situation in foreign exchange payments has improved substantially.

The Situation in Foreign Exchange Payments in the First Half of This Year

During the second half of 1984 and the first half of 1985, aggregate demand far exceeded aggregate supply in China due to the overheated economy. As a result, the demand for foreign exchange rose drastically. Some areas, departments, and enterprises lavishly spent foreign exchange beyond the quotas prescribed by the state plan to import a great deal of raw material with a view to maintaining a high production growth rate. For some time there was a craze of importing household electric appliances and cars. During the period, the foreign exchange reserve dropped considerably.

As a result of continued efforts in the first half of this year, China has improved the situation in foreign exchange payments despite the unfavorable balance of foreign trade. According to an estimate by the department concerned, this year's oil price slump on the international market alone has caused a decrease of $2 billion in China's foreign exchange revenue. At the same time, the prices of primary products have kept on dropping on the international market. In addition, trade protectionism has been gaining ground in the world again. All these developments have created difficulties for China's commodity export. Although there has been a great demand for commodities both at home and abroad, all the above unfavorable factors have laid obstacles to the implementation of the state's plan governing foreign exchange revenue and expenditure. In light of the development in the first seven months of this year, however, the situation in foreign exchange payments has been improved as compared with that in the corresponding period of last year. By late June this year, China's foreign exchange reserve totaled $10.473 billion. Statistics show that the increase in foreign exchange revenue derived from export of silk fabrics and agricultural and sideline products has made up the decrease due to the crude oil price slump.

To be sure, the situation in foreign exchange revenue and expenditure is improving. However, there are still many problems in the existing foreign exchange system. For the past 30-odd years China has been implementing a supply system in foreign exchange allocation and has been exercising administration over foreign exchange by administrative means and the means of mandatory plan. In the wake of the in-depth development of the economic structural reform, a money market has begun to take shape in China and the exploration of a limited foreign exchange market is becoming an inevitable trend.

The unexchangeability of the renminbi has been the fundamental problem in opening a foreign exchange market. For this reason, many people maintain that the process of opening up the foreign exchange market should be postponed. However, economic development over the last two years has strongly demanded an opened foreign exchange market, and specialists in this field have even made urgent appeals. The Chinese authorities are considering carrying out a reform of the foreign exchange system, featuring a "double track" system which depends on both planned management and the market mechanism. The reform will focus on invigorating foreign exchange regulation, regulating exchange rates, working out an international payments plan, improving the system of retention of foreign exchange earnings, controlling interest rates of foreign exchange, taking care of foreign debts, supervising statistical work, and setting up the state foreign exchange reserve fund and the credit fund for the Central Bank.

First Step--Invigorating Foreign Exchange Regulation

The opening of the foreign exchange regulatory market will be the first step toward the opening of the real foreign exchange market. In order to encourage export and earn more foreign exchange, China implemented the system of retention of foreign exchange earnings for local authorities in 1980, making it a definite rule that an enterprise producing export goods is to keep half of the foreign exchange earnings arising thereof. As a matter of fact, units having foreign exchange on hand are not necessarily units spending foreign exchange--some enterprises which earn foreign exchange do not need foreign exchange or do not have to spend all the foreign exchange they earn, while some enterprises which do not earn foreign exchange badly need foreign exchange to import advanced technological equipment or key component parts. This case calls for sale and purchase of foreign exchange between different enterprises.

So, China began to run a foreign exchange regulatory business in October 1980. As a measure to encourage enterprises to earn more foreign exchange, they are now allowed to trade in foreign exchange and the renminbi with each other and can profit by selling foreign exchange at a rate higher than the list price. The amount of foreign exchange regulated in this way in China over the past five years totaled $6 billion. However, since some localities and departments at different levels have tried by every means to cut the amount of foreign exchange to be retained by enterprises, the amount of foreign exchange that the enterprises have actually obtained is rather limited. In addition, as the foreign exchange regulatory prices have been set too low, the foreign exchange regulatory market has been very dull these days. In February this year, the People's Bank of China drew up a new foreign exchange regulatory procedure, raised foreign exchange regulatory prices, and promulgated new stipulations on the qualifications of purchasers of foreign exchange as well as the fields that the foreign exchange regulation procedure is to cover. In the past few months, since the implementation of the new procedure for regulation of retained foreign exchange, foreign exchange regulatory business has been started throughout the country. By late June, 54 cases of trade in foreign exchange had been handled in Tianjin Municipality alone, involving 94 units and a fund totaling nearly $48.3 million.

China's tentative idea on the future reform of the foreign exchange regulatory system consists of two points: 1) to gradually lift the restriction on foreign exchange's regulation prices and tolerate fluctuation of the prices within a certain range in accordance with the supply and demand on the market; and 2) to extend the scope of foreign exchange regulation from one level to another. So far only the foreign exchange earnings retained by Chinese enterprises have been covered by the regulation program. Now the state is considering an extension of the program to cover the foreign exchange earnings retained by local authorities and Sino-foreign joint ventures, or even to cover, when the conditions are ripe, the foreign exchange owned by individuals. At present Shenzhen is experimenting with the process of opening the foreign exchange market; the foreign exchange rate under the regulation program can float as restrictions have been lifted. State-owned enterprises are now allowed to trade in foreign exchange between them, and so are enterprises run with foreign capital, Overseas Chinese capital, and with both Chinese and foreign capital.

According to specialists' suggestion, as soon as the foreign exchange regulation program is operating well, the second step for China to take will be the establishment of a foreign exchange balance fund. In case of imbalance between supply and demand in the foreign exchange market and substantial fluctuation in exchange rates, the Central Bank will intervene in the market by buying or selling foreign exchange.

Foreign Exchange Rates Will Be Constantly Adjusted

For a long time, the renminbi's exchange rate had been set too high and did not reflect its real value. In order to change this unreasonable phenomenon, China decided to reform the renminbi's exchange rate in 1980. While using internally accepted foreign exchange rates for settling foreign trade accounts, China has gradually lowered the renminbi's exchange rate. By early 1985, the renminbi's exchange rate was lowered to 2.8 yuan for $1. Then the internally accepted foreign exchange rate for settling foreign trade accounts was cancelled and the unitary exchange rate was restored. In the same year, the renminbi's exchange rate was further lowered to 3.2 yuan for $1. In order to keep in line with the changing price level at home and abroad and to maintain an equilibrium of balance of international payments, China announced on 5 July this year that the renminbi's exchange rate was lowered again by 15.8 percent. Many Chinese and foreign economists and personages of the banking, industrial, and commercial circles who remarked on this decision generally agreed that this latest substantial readjustment of the exchange rate would have positive influence on China's economy and would be especially favorable to the promotion of export, the restriction of import, and the reduction of adverse balance of international payments. Moreover, it would help to attract more foreign capital and encourage Chinese-foreign joint ventures to develop into export-oriented enterprises.

The Chinese Government has decided to make the reform regarding the exchange rate a long-term task as a part of the reform of its foreign exchange system. In the future, the exchange rate will be constantly readjusted in accordance with the changing price level at home and abroad and with the balance of international payments so that it will be maintained at a more reasonable level.

Setting Up a Foreign Exchange Reserve Fund

China is preparing to establish a foreign exchange reserve fund. As a reserve asset which is to be used to cover international payments in case of emergency, this foreign exchange reserve fund must not be drawn on in normal times. The banking circles have suggested that a certain amount of foreign exchange reserve be built up first in the next five years.

Reforming the Foreign Debt Controlling System

In April this year the state decided that the State Foreign Exchange Administration of the People's Bank of China shall exercise unified management over foreign debt departments throughout the country, thus changing the original structure under which each department operated on its own. The task of the State Foreign Exchange Administration is to obtain information on the country's foreign exchange and foreign debts promptly, accurately, and in an all-round way, to reflect and make suggestions to the state Council and the departments and localities concerned, to provide reliable information useful for the state in making decisions concerning macroeconomic operation, to perform the duties of a state organ in charge of foreign exchange administration, and to exercise supervision over the work concerning foreign debts.

At present, the State Foreign Exchange Administration is preparing to set up a nation-wide foreign debts statistical and monitoring system,. carrying out a nationwide overall survey of foreign debts to find out the total amount of the country's foreign debts, and planning to draw up a foreign debts administration procedure.

/12913
CSO: 4006/22

FOREIGN TRADE AND INVESTMENT

IMPORTANCE OF FOREIGN TRADE, EXPORTS UNDERSCORED

Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese 25 May 86 pp 30-31

[Article by Xu Yaozhong [1776 5069 0022]: "All Enterprises Are Duty-Bound to Export and Earn Foreign Exchange"]

[Text] In his "report on the Seventh 5-Year Plan," Premier Zhao Ziyang points out that "our ability to export and earn foreign exchange determines the scope and extent of foreign economic relations, trade, and technical exchange. It also controls the scale and progress of domestic economic development, and is a vital strategic issue impacting the future of the open door policy." As we study the premier's report, we understand better the profound significance of the generation of foreign exchange through export for socialist modernization. But we also discover a couple of muddled ideas that need to be clarified.

Some people wonder why we should export at a time when China does not exactly abound with commodities and is actually short of many things. At issue here is a conflict between long-term and short-term interests. To export what is in demand at home in return for foreign exchange is to meet the needs of long-term national development. The foreign exchange thus earned can be used to finance the import of advanced technology, which, in turn, can enhance our economic prowess and enables us to produce more popular products of an even higher quality. As Premier Zhao Ziyang points out, "The open door policy inevitably involves both export and import. How much we can import depends on how much we export. Only by expanding export can we expand import." Therefore, apart from a minority of vital commodities that have a bearing on the national economy and the people's livelihood, in the case of most other products we should give preference to export whenever there are competing domestic and export demands.

Other people believe that since producing for the world market is a demanding job as exports must be of a high standard, we should take things easy and cater to the domestic market instead. It is exactly this kind of mentality that partly explains the longstanding backwardness of some Chinese products. Any enterprise not motivated to compete internationally will never see its products gain a niche in the international market. What is more, they are bound to be eliminated even from the domestic market in the end. Manufacturers should develop a sense of responsibility to their consumers and must never sell shoddy, substandard products causing injury to domestic consumers. They should provide the domestic market with first-rate products that are equally good, innovative and inexpensive.

Yet others assume that export and the earning of foreign exchange are the concerns of foreign trade agencies and have nothing to do with other agencies, units, and enterprises. Foreign trade agencies are indeed duty-bound to promote export and earn foreign exchange. It is their responsibility to grasp international market trends promptly, guide enterprises to organize product production, actively secure export sources, and continuously open up world markets. However, foreign trade agencies cannot accomplish export and foreign exchange tasks by themselves; they need whole-hearted cooperation from every quarter. Industrial, agricultural, materials, commercial, supply and marketing, and other agencies all have an inescapable responsibility for planning and organizing export production, providing funds and materials, and producing and procuring agricultural byproducts and native produce. Even cultural and educational agencies are responsible; it is their job to train qualified personnel and conduct propaganda. As for those enterprises presently without export commitments, they should not imagine they have nothing to do with foreign trade and export but must seriously analyze the reasons for their noninvolvement. If the reason is poor-quality products, they must take tangible measures to improve their products and make an effort to meet export requirements without delay. If the reason is related to product variety, specifications, design, packaging, they should promptly upgrade accordingly to satisfy market requirements. If the reason is a temporary failure to find the right customer, then it should vigorously tap new foreign markets in conjunction with foreign trade agencies.

To sum up, all enterprises in the manufacturing business should make a mighty effort to break into the world market. If all agencies, localities, and enterprises develop a strategic vision, think in terms of the general interest, and work hard to export and earn foreign exchange, foreign trade and export will enter a brave new world in the Seventh 5-Year Plan.

12581
CSO: 4006/1159

FOREIGN TRADE AND INVESTMENT

GARMENTS CURRENTLY SECOND LARGEST EXPORT

Beijing GUOJI SHANGBAO in Chinese 9 Jun 86 p 1

[Article by Li Jian [2621 0256]: "The Rise of Garments as China's No 2 Export"]

[Text] China has been working hard to make its garment exports sell on account of their high quality. At a time when there has been no significant increase in export volume, the value of China's garment exports has been expanding by an average of more than 11 percent annually in recent years. They were valued at $1.02 billion last year and $550 million in the first 5 months in 1986: Garments have become the country's largest export after petroleum.

China began exporting garments in the 1950's, but their dull monotonous fabrics and designs and inability to adapt to changes in the international market have confined them to budget stores and some even ended up on street stalls. In recent years, the nation has diligently modernized old factories, introduced advanced equipment, and improved the conditions of production. The result is garment exports of an ever rising quality.

Chinese textile exports went back a long time and its gray cloth was of a good quality. During the last few years, textile products, especially garments, have grown to account for an increasing share of the country's exports. During the Sixth 5-Year Plan, it exported a total of 1.6 billion pieces of garments, earning $4.364 billion in foreign exchange, up 90 percent and 129 percent, respectively, over the Fifth 5-Year Plan.

Faced with insufficient fabrics and a lack of designers, export agencies have aggressively pursued production for established brands, processing of imported materials and compensation trade. Famous US brands like Levi's, Sergio Valanti, Wrangler, and van Heusen all import Chinese garments. At present, there are over 1,000 garment processing plants exporting to over 130 nations and regions, including the US, Canada, and the European Economic Community which between them absorb 70 percent of their exports. woolen garments from Guangdong, cotton polyester shirts from Beijing, trousers from Shanghai, large-check plaid shirts from Tianjin, and terry cloth garments from Shandong are all selling briskly overseas. Some products are qualitatively comparable to their well-known brand-name counterparts abroad. One third of China's garment exports successfully make their way into upscale stores worldwide.

After disclosing the above, Deputy General Manager Zhong Quansheng [6988 3123 4141] of the China National Textiles Import and Export Corporation said, "Right now the world garments market is expanding continuously. Garment exports worldwide are a $50 billion business. Since China's share, including knitwear and cotton fabrics, amounts to only $1.5 billion, the prospects for development are excellent. We must export more garments at the upper end of the market with a high added value. Toward that end, we must initiate all flexible forms of trade with foreign businessmen to step up the export of more expensive garments, on the one hand, and develop our own fabric industry, train more fashion designers, establish our own brand-names, and earn more foreign exchange for the state, on the other."

12581
CSO: 4006/1159

SHANGHAI'S FOREIGN INVESTMENT PLAN FOR SEVENTH 5-YEAR PLAN

Shanghai WEN HUI BAO in Chinese 8 Jun 86 p 1

[Article by Yu Qiuliang [6079 4428 2733] and Zhang Debao [1728 1795 1405]: "Shanghai To Finance Infrastructural Projects with Foreign Capital"]

[Text] The Shanghai Foreign Economic Relations and Trade Commission disclosed yesterday that the municipality has set the direction and focus of the use of foreign capital during the Seventh 5-Year Plan, taking a four-prong approach:

First, step up major urban infrastructural projects. An effort will be made to use foreign capital to accelerate the construction of the harbor, subway, airport, and the bridge over the Huangpujiang. This is important if the urban infrastructure is to keep up with economic development and conditions indispensable to the realization of Shanghai's economic development strategy are to be created. Second, increase export production and import substitution in order to enhance Shanghai's ability to earn foreign exchange. Third, strengthen major technical transformation projects and put together projects in the tertiary industry to provide tourist and cultural facilities so that the municipality can fulfill its multi-functional role as an urban center. Fourth, intensify the development of such new areas as Minhang, Hongqiao, and Caohe to provide overseas investors with an attractive investment environment.

Vice Chairman Lu Guoxian [7120 0248 6343] of the municipal Foreign Economic Relations and Trade Commission said, "To support Shanghai's transformation and vitalization, the national government has allocated us as much funds as the country's present financial state allows. But they still fall short of actual requirements. Therefore we welcome foreign investments in urban development."

Lu Guoxian also revealed that as Shanghai is further opened to the rest of the nation and the world, it is gradually shifting its development thrust to the construction of new areas, particularly along the east bank of Huangpujiang, and toward Hangzhou Bay and the northern and southern flanks of the mouth of Changjiang. The drive to develop new areas will be accompanied by industrial redistribution, an intensification of satellite town development, and an expansion of major market towns in suburban counties so that rural and urban areas will be neatly balanced in the new Shanghai. In light of the municipality's economic development strategy, Shanghai industry must replace its present extensive model with an intensive one. It must rely mainly on improved technology for growth, instead of depending merely on increasing inputs, as it does now. Such changes must be effected if the equipment in key traditional industries as well as the technical quality of their products are to approximate the most advanced in the world.

12581
CSO: 4006/1159

FOREIGN TRADE AND INVESTMENT

BRIEFS

HEBEI CHEMICAL EXPORTS SOAR--Since the beginning of this year, Hebei has stepped up its exports of chemicals in accordance with new policies aimed at giving priority to exports. During the first 6 months of this year, 57 different products totalling a value of 56.57 million yuan were exported. This represents a 42.5 percent increase over the number of items exported last year and an 88.6 percent increase over last year's total value. [Excerpts] (Shijiazhuang HEBEI RIBAO in Chinese 31 Aug 86 p 1)

YUNNAN CHEMICAL EXPORTS--Yunnan's Chemical Industrial Import/Export Corporation successfully expanded exports during the first seven months of this year and by the end of July had accumulated $8.15 million thus prematurely exceeding its annual quota by 135 percent In 1986, this corporation has consistently supported reform, developed lateral economic cooperation, and looked at different ways to resolve transportatiin problems. It has also put a premium on quality, reputation and expansion of its work in foreign markets. July's exports set an all time record by bringing in a total of $2 million. [Excerpts] (Kunming YUNNAN RIBAO in Chinese 23 Aug 86 p 1

HEBEI TRADE TALKS CLOSE--Hebei's annual International Economic and Technological Cooperative Export Commoditiy negotiations closed on 10 September. 950 businessmen from 22 different countries and areas were present. They entered into contracts for $25.48 million worth of Chinese exports. Contracts were signed to import a total of 74 different kinds of technological items whose total value amounts to $53.7 million. Ready foreign exchange totalling $40.13 million will be used to import 64 of the above items and foreign capital will be used to pay for the remaining 10 worth $13.57 million. In addition, a statement of cooperation and a statement of intention were also signed. [Excerpts] (Shijiazhuang HEBEI RIBAO in Chinese 13 Sept 86 p 1)

CSO: 4006/43

SPECIAL ECONOMIC ZONES

ZHUHAI ECONOMIC ZONE FLAWED BY POOR PLANNING, MISMANAGEMENT

West Berlin TAGESSPIEGEL in German 22 Jun 86 p 13

[Article: "Special Zones Have Not Proven Their Value--Foreign Investments Lacking"]

[Text] For the more than 50,000 Chinese workers who were brought to the Zhuhai special economic zone to build a deepwater harbor, industrial complexes, and residential settlements, employment at monthly wages of 300 Chinese yuan (approximately DM215) and more, which is three times what they receive in their home provinces, has paid off. On the other hand, the balance sheet of the economic experiment 6 years after it was started is sobering for the city. Entire rows of newly built residential and business quarters, which are gradually making Zhuhai like the skyline of neighboring Portuguese Macao, remain empty. The stream of potential investors from Western industrial countries has declined sharply.

With 200,000 inhabitants and an area of 15 square km Zhuhai, which is located on the west bank of the mighty Pearl River delta, is the smallest of the PRC's four special economic zones. Vested by Peking with extensive special powers and capital on a preferential basis--since 1980 almost 8 billion yuan (approximately DM6 billion) has been invested in the infrastructure alone--as market economy and technological showcases they were supposed to attract foreign investment and build up a modern export economy. Yet, as the State Council established at the beginning of the year at a special conference, undesirable developments have endangered the long-term success of the most important foreign trade experiment of the liberal reform policy: excessive investments in construction projects made the zones dependent on infusions of capital from the state treasury for a longer period of time than planned. The criticism from Peking is that they profited not from exports, but rather from illegal transshipping of imported consumer goods, which are much in demand, to the interior.

Zhuhai, too, is feeling the consequences of this critical stocktaking and the more heavily controlling intervention by the central government. Zhen Defeng, deputy local planning chief, acknowledges that "we have invested too much in the development of tourism." However, the initial enthusiasm of the planners was also subdued by recognizing that establishing an innovative industrial structure with internationally competitive products is, in the absence of experience, more time-consuming and troublesome than had first been anticipated. An example of this is the radio cassette recorder factory which was built 2 years ago as a model and was equipped with the most modern Japanese production technology. Of the 200,000 recorders per year only about 20 percent could be sold to the Near East and Eastern Europe because, according to head engineer Wu Guixing, "the design is outmoded."

The strong dependence on Hong Kong and Macao turns out to be an additional obstacle to technological development, while investors from the United States, Japan, and Western Europe--put off by the high export taxes and the lack of trained work forces--have thus far held back from the processing industry with larger projects. Of the approximately $280 million (about DM644 million) which has come to Zhuhai as foreign capital, three-fourths is from the neighboring colonies.

12124/9365
CSO: 4620/60

POPULATION

PRELIMINARY ENQUIRY INTO FLOATING POPULATION

Beijing RENKOU YU JINGJI [POPULATION AND ECONOMICS] in Chinese No 3, 25 Jun 86 pp 3-5

[Article by Zhang Qingwu [1728 1987 0063] of the Public Security Bureau]

[Text] The floating population is discussed here in both its inflow and its outflow. The outflow of the floating population refers to people who have left home temporarily. This includes people who have been gone from their place of household registration for a relatively long time and have not yet returned. The influx of the floating population refers to people residing temporarily in a district. It includes some people residing in the district who are waiting to establish household registration in the district (also called people without a household). The floating population can be divided on the basis of mobility into people who are traveling and people who are temporarily residing somewhere. However, it excludes people who go to market for the day or people who have already completed procedures for a one-way transfer of their household registration.

In recent years China's floating population has been growing very rapidly. Its size, range, and impact are unprecedented. The floating population is especially concentrated in the cities, townships, stations, docks, and tourist areas where it causes a great shortage of places on public passenger transports such as trains, highways, water transport, and civilian airliners. Many people are concerned about this social problem.

How should we regard the problem of the floating population in everyday life? What is the relationship between the floating population and the reforms of the economic system, social production, construction, and the livelihood of the people? What are the causes of large population movements? This article is a preliminary analysis of these questions.

Size of China's Floating Population

What is China's daily floating population? Lacking specific statistical data, it is difficult to make an accurate quantitative analysis of this problem. China has not yet carried out a thorough survey of the floating population. Here I will only consider some new developments and, relying on preliminary material I have collected, merely make a rough estimate of the size of and trends in China's floating population.

Statistics reveal that the 1982 Chinese daily floating population was only about 30 million. The principal evidence for this is that in 1982 Chinese railroads, highways, water transport, and civilian air transport provided a total of 4,289,360,000 passenger-trips (Footnote 1) (State Statistical Bureau, ed., "China Statistical Yearbook 1983," p 302) This is an average of 11.7 million people or 11.7 percent of the domestic population per year. The second piece of evidence is that the Third National Census data show that in 1982 more than 6,356,000 people had been absent from their place of household registration for more than a year. There were 4,755,000 people as well who had neither rural nor urban household registration for a total of 11.12 million people or 11.1 percent of the total domestic population. These two categories total 22.82 million; if we add to these the floating population temporarily residing outside their place of household registration, China's floating population can be conservatively estimated at 30 million people. The floating population has grown especially rapidly over the last 2 years.

Analyzing the situation in 1985 leads to an estimate which exceeds 40 million for the regular floating population. According to estimates by the public security bureaus of Beijing, Tianjin, Shanghai, Shenyang, Changchun, Harbin, Nanjing, Guangzhou, Wuhan, and Xi'an of the daily floating population at the end of March 1985, the floating population totaled 4,383,000 or 14 percent of the urban population. Of these, 1,585,000 or 36.2 percent of the floating population were in transit, while 2,799,000 or 63.8 percent were residing in the city temporarily. The ratio between the two is about 2 to 1. Estimating on the basis of the size of the floating population in the cities relative to the urban population, China's cities and townships have a floating population of more than 20 million. The countryside has a smaller floating population. If we estimate it as 3 percent (Footnote 2) (BEIJING RIBAO, 16 December 1985, 4th edition) of the rural population, it certainly totals more than 20 million people. Estimates of China's floating population on the basis of other data are also close to 40 million. An advisory from the NEW CHINA NEWS AGENCY on 15 December 1985 stated that 20 million peasants work in construction and in tertiary industries in the cities. (Footnote 3) (In 1985, according to a survey in the proportion of the floating population, the total population in Zhejiang Province, Cangnan County, totaled 3.6 percent of the total county population; in Shanghai, Baoshan County, 4.2 percent; and in Jiangsu Province, Danyang County, 4.6 percent. According to statistics for Shaanxi Province, Shanyang County, 35,000 or 9.3 percent of the county labor force have gone to work outside. The figure for Zhejiang Province, Yongjia County, is 4.7 percent.) These figures exclude movement between the cities and townships or between the rural areas. We can base our estimates on the use of China's passenger transportation facilities. Passenger traffic in 1979 averaged 7.93 million person-trips a day. This figure rose to 12.89 million in 1983, for an increase of 1.2 million a year. (Footnote 1) (State Statistical Bureau, "China Statistical Yearbook 1984," p 277) We can estimate that average daily passenger traffic exceeded 15 million in 1985. Taking this as the figure for the floating population in transit, we can infer from the 2:1 ratio of the 10 largest cities that the floating population temporarily residing in the city is 30 million. Adding these two figures also gives us a total Chinese floating population of over 40 million.

Not only is China's floating population very large but with material and cultural improvements in the lives of the Chinese people, the composition of this population has also changed considerably. Today's floating population is mostly trading, working, performing services, running errands, sightseeing, studying, participating in technical exchanges, visiting relatives, etc. This reflects the profound changes in the material and spiritual lives of the people after China's opening up to the outside world, invigorating the domestic scene, and the unmistakable improvement in the economy. It's a sign of the times.

Causes of Increases in Floating Population

The rapid increase of the floating population in a society, considered from the standpoint of the commodity economy, is the necessary consequence, under the condition of China's socialist commodity economy, of the growth in the production and circulation of commodities and steady increases in regional economic integration, as well as the steady increase in the flow of goods and materials between the city and the countryside. First, the opening to the outside world, the invigoration of the domestic scene, the expansion of the areas where commodities circulate, the increase in the number of channels for the circulation of goods, and the extension of the stages of commodity circulation affect the floating population. This is especially true when many different economic components coexist, and when commodity circulation is affected by various types of economic organization, management methods, and channels of commodity circulation. A large increase in the number of people working in various enterprises involved in the transportation, sale, etc. of commodities results from these factors. Second, manufacturing and commercial enterprises are competing, and have increased managerial autonomy. The state, within defined limits, allows enterprises to arrange their production to meet the demands of the market, to make trips to purchase goods and materials, to practice several forms of management, and to market what they produce. This increases the number of factories and commercial enterprises which are involved in more than one area. Horizontal economic ties become closer. More people are needed every day to produce, buy, and sell in this kind of production and circulation system. Third, the number of households specializing in independent production and commerce has grown to 30 million. Most of these buy and sell small commodities, are spread over a wide area, and have great mobility. Many people travel about as they exchange commodities. According to statistics from a Jiangsu Province survey, of the 5,853 self-employed peasant households in Shazhou County at the end of 1982 more than 65.4 percent left the province on business, thus contributing to the flow of population between provinces. Fourth, the peasant markets in the city and in the market towns are flourishing. This produces great regular and irregular flows of population between the city and the countryside as people come from all quarters to crowd into the cities and market towns. They provide the material foundation for the peasant markets which improve the supply of foodstuffs in the city. Moreover, the peasants as they return from the city to the countryside take with them the manufactured goods of the city and boost the exchange of goods and materials between the city and the countryside.

In the areas of production and construction we can see the influence the development of the forces of production and changes in the distribution of production, progress in science and technology, the formation of networks of trade and communications, the exploitation of natural resources, the growth of the villages and the market towns, the construction of the cities, and the rise of tertiary industries has on the scope, size, and route of the flow of the population. This is because the task of socialist construction requires the planning of the entire national economy. As the planned state economy accelerates and expands its reproduction, we ask people involved in economic activities that they move into the areas the state has designated as key areas for construction and that they adjust their activities to the needs of the development of production. For example, the construction and repair of railroad lines, the opening up of the border areas, the harvesting of the forests, the exploitation of mineral resources, and the building of the special economic zones along the coast can absorb a great deal of the surplus labor force of the interior and of people trained in science and technology. Moreover, the cities are growing and there is always more to build there. The number of workers needed for construction and repair projects is growing and the urban construction brigades cannot meet the demand for construction in the city. Thus ever more of the surplus labor force of the countryside is drawn into the city to do construction work there. In 1975 Wuhan absorbed 31,000 workers and peasants from other areas for construction. By 1984 this figure exceeded 100,000 and the concerned departments still felt pressed by a labor shortage. According to 1982 statistics from the Jiangsu department responsible for construction laborers in 1982, more than 550,000 peasants work in construction in the villages. Of these, 180,000 worked in cities in Jiangsu Province and 150,000 participated in construction in other provinces. The rise of industry in the villages and townships requires more support of many different kinds from the cities in the areas of popularizing commodities, transferring technology, and processing and ordering parts. This brings more frequent contacts between the enterprises of the cities and the enterprises of the townships and rural areas due to business and exchange of technology. These activities are also an important cause of the flow of the population between the cities and the townships.

In the context of the reforms and trends in the development of the economic system the mobility of scientists, technicians, and the labor force is an aspect of the floating population which cannot be ignored. The national economy requires the steady increase in the scale of production, the adjustment of the structure of production, and technological innovation. Moreover, the original deployment of the scientists, technicians, and the labor force is unbalanced. This situation naturally leads to the rational flow of scientists, technicians, and labor force between regions, between departments, and between industries into occupations in which they can fulfill their own specialized talents and start up new enterprises. We should likewise recognize that in the reform of the Chinese economic system in order to transform technology, adjust the occupations, reorganize the structure of the enterprises, and expand tertiary industries, scientists and technicians in some enterprises will have to seek new employment. The opening up of new industrial sectors going on at the same time offers new opportunities for employment and is absorbing new employees. Moreover, China's labor allocation system is too rigid. Because of the reform of the personnel and labor system, the labor market is opened up, people apply for jobs on their own, applications are invited for a job, people choose their occupations freely, etc. All these changes stimulate the mobility of the employed population.

Many different aspects of social life also make the floating population increase, in particular, the steady growth of a flourishing economy, the stability of society, and the rapid raise in the material and cultural standard of living of people in the cities and in the countryside. Sightseeing trips, honeymoons, vacations of staff, workers, and students, festivals, seeking refuge with one's relatives, and gatherings of relatives as well as of people going to the countryside to help out with farm work, etc.--all have a strong influence on the rapid growth of the floating population. For example, in 1984 the principal tourist attractions of Beijing Municipality received 80 million man-visits from Chinese and foreign travelers. Ninety-seven percent of these visitors were Chinese. (Footnote 1) ("CHINA TOURISM NEWS," 8 January 1985) In the same year Hangzhou and Guilin received more than 30 million man-visits. (Footnote 2) (NORTHWEST UNIVERSITY JOURNAL, No 3, 1985) In recent years more than 1 million skilled craftsmen from the rural counties of Zhejiang Province have traveled throughout the country performing many different kinds of jobs as they move about. (Footnote 3) (POPULATION RESEARCH, No 5, 1985, p 20)

We Should Pay Attention to Problems Created by Floating Population

We should realize that the rapid increase in China's floating population is riding the historic tide of reform. It actively promotes the development of the socialist construction of enterprises. We could say that the large floating population of recent years is a vivid expression of the prosperous development of China's socialist enterprises in recent years. We should ascertain the principal trends in the movement of the floating population. However, we should also pay attention to some problems which have arisen with the rapid increase in the floating population.

First, the rapid increase in the floating population puts tremendous pressure on passenger transportation facilities such as the railroads, highways, water transport, and civilian aircraft. Moreover, with increased production and the invigoration of the economy, passenger traffic will continue to increase. The problem of tight supply caused by the limited capacity of transportation facilities and demand which exceeds capacity will become even more acute. Thus the problems of increasing passenger transportation capacity, enthusiastically improving the quality of transportation, convenience, safety, and proper service to passengers, making transportation routes which go everywhere, and having passengers go on their way without difficulties are badly in need of solution.

Second, the rapid increase in the floating population is placing a heavy load on urban public facilities and on enterprises such as restaurants. Difficulties in getting a place on a transport and in finding a place to stay will not be solved for a long time. For example, a floating population comes and goes to Beijing daily, yet there are little more than 200,000 beds in the city's hotels and hostels. Although temporary arrangements have been made for more beds, travelers still have a hard time finding a place to stay. This is an important topic to be considered in the reform of the cities, urban planning, and the construction of urban government.

Third, we cannot prevent the appearance of some scum amidst the rapidly growing floating population. Some lawbreakers change their names, disguise themselves, and hide by melting into the floating population. They open private bank accounts, make phony documents, and buy and sell thin air. Some are swindlers who evade taxes; declare bankruptcy opportunistically to make a big profit; or travel about committing crimes which disrupt the order of society. According to 1983 Shanghai statistics on cases throughout the municipality in which the criminal was captured, 6.8 percent came from other areas. In 1984 this figure increased to 10.8 percent. Evidently sufficient attention should be paid to the better management of the floating population.

12369/12379
CSO: 4006/1201

TRANSPORTATION

CHANGE TO DIESEL ENGINES ON ZHEJIANG-JIANGSU RAILWAY REPORTED

Beijing RENMIN RIBAO in Chinese 15 Jul 86 p 1

[Article by Wei Yongming [7614 3057 2494]: "Transformation to Dieselization on Zhejiang-Jiangsu Railway Begins; Direct-route Freight Trains To Use Dongfeng No 4 Engines; Annual Transport Capacity To Increase by More Than 3 Million Tons"]

[Text] Beginning 10 July, 13 direct-route freight trains were switched over to using Dongfeng-type engines. Carrying capacity of each train has increased from 2,300 tons to 2,800 tons, and annual transport capacity may increase more than 3 million tons. From now on, this most difficult section of the rail network will begin to shift from steam to diesel engines.

The Zhejiang-Jiangsu Railway is the only line connecting eastern and southern China and there tends to be a concentration of heavy freight traffic and trains, which has reached the saturation point, resulting in a seriously inadequate carrying capacity. This has been an outstanding problem in the transport work of the entire line. Since the implementation of the output-related system of labor responsibility, the Shanghai bureau has, based on the plans of the Ministry of Railroads, opened up the Zhejiang-Jiangsu line, beginning with engine renovation and augmenting pulling power. The bureau has used the 20 ND5 engines donated by the Jinan bureau on the Shanghai-Hangzhou line, allowing the attachment of 25 Dongfeng locomotive engines to the Xiangtang maintenance section of the Zhejiang-Jiangsu line. In little more than 1 month's time since early June, the engines have been put to full, normal use on the line. According to the investigation and verification of the appropriate departments, this is an unprecendented event in the history of railway dieselization in China. At present, five direct-route trains have switched over to using diesel engines, while the remaining eight are expected to do so before the Ministry's scheduled deadline at the end of August.

The work will involve the maintenance sections of Nanyu, East Nanjing, Xiangtang, Pingxiang, and four other areas. Under the painstaking organization of the maintenance office of the railroad bureau, these units have completely fulfilled their goals and tasks. After arriving at Xiangtang, the 50 train attendants sent from the Nanyu and East Nanjing maintenance sections, in the spirit of being the masters (of their own railway), in mid-June participated in trial runs and trained local personnel without nitpicking over compensation, playing a key role in ensuring the realization of this strategic policy decision of the ministry and bureau. The 30 train attendants transferred by the Nanchang bureau within 1 month's time completed the entire course of dieselization training, from practice runs to solo operations, a program that normally takes 3 months to finish, passing the trial run in early July. At present the Shanghai bureau is making preparations for the dieselization of the entire Zhejiang-Jiangsu line.

12221/13045
CSO: 4006/1268

TRANSPORTATION

IMPROVED RESEARCH IN RAILWAY SECTOR URGED

Beijing RENMIN RIBAO in Chinese 16 Jul 86 p 2

[Article by Sun Baorang [1327 1405 5816]: "Research on Capital Construction in the Railway Sector Must Be Strengthened"]

[Text] Capital construction investment in the railway sector represents quite a large sum of money. How to use this money properly is the key to the success or failure of our output-related system of responsibility. According to our understanding, the design and budgetary estimates of some major construction projects greatly exceed the limits for investment set by the state, and there may be a rather large gap in the total volume contracted for. If the investment gap is not resolved, and if errors that have been made before are repeated, the necessary task of improving old lines and creating new ones cannot possibly be completed.

To utilize capital construction investment properly requires, in addition to the important work of improving scientific predictions and conducting painstaking analyses and research on the part of the planning, capital construction, and policy-making sectors, the organization of forces to undertake verification research to provide a scientific basis for certain fundamental problems of principle relating to the rationalization of investment, design improvement, and the promotion of scientific policy making.

I. Improving Planning To Strive for Investment Rationalization

A plan that strikes to the root of the problem of investment rationalization is the effort to do a good job of mid- and long-term planning for the railroad network. In the past, due to the lack of overall planning and the custom of decisions on key construction projects being made arbitrarily by one individual, plans were made "in bits and pieces," or in consideration of partial, temporary gain only, or there was a lack of focus as to what should be stressed and what sort of construction speeds should be attained, which led to frequent changes in plans or a disruption of normal procedure. In some cases, a large input resulted in poor production output. Therefore, during this present stage of basic stability in the orientation and the program of economic construction, the great undertaking of improving railway network planning should be placed on the agenda as soon as possible in order to proceed with railroad construction during and after the Seventh 5-year Plan and to rationalize investment.

If we are to bring about an upswing during the Seventh 5-year Plan, we must strengthen and renovate the busy, thriving 16,000 km-long northeast coastal line and renovate each route, line, and rail hub, looking both ahead and behind to do comprehensive research on a whole series of planning problems.

In addition, in setting our sights on long-term planning, we need to study and inquire into railway models for coastal economic development zones--for example, high-speed train lines that exist in some developed countries and the direction of development of the east coast industrial structure designated according to the third part of the state's Seventh 5-year Plan--and into its effect on rail transport and construction.

II. Major Questions Regarding Improving Design and Reducing Production Costs

Current building costs for constructing new lines with large freight capacities are particularly high--from over 8 million to nearly 10 million yuan per kilometer designed for electrified duel-track lines. In view of the continued need for the construction of quite a few high freight volume lines and the limitations of current design methods in putting single-track lines to the best use, the laying of double-track rail frequently has to be arranged ahead of time, from the presentation of tasks to actual planning. Also due to the tendency to conservatism in the choice of slope standards in areas of difficult terrain, building costs for these lines remain high. Therefore, the use of heavy-burden freight cars, communications signaling equipment, and other new technologies in expanding single-track capacity, thereby lengthening the period of transition to double-track, and the appropriate selection of norms should be the focal points in lowering construction costs.

A. Models of design programs for the use of large-capacity freight cars of high hauling capacity on new lines and of signal equipment and other new technologies must be determined based on terrain and pulling power: the distribution of transitional areas from single to double track and the best coordination of car weight, economic rationality, intervals for the expanded construction of double-track lines based on the needs of different growth rates of different transport capacities, and the economic nature of construction in stages.

B. Principles of design for the shift from single to double track as regard such large-scale engineering projects as bridges and tunnels. In the early stages of construction the goals of the economy must be attained; in the second stage the construction process must be facilitated and the goals of flexibility and economic rationality of dynamic investment should be reached.

This issue is now being handled by the main bureau for capital construction, which has begun by organizing readjustment and research into bridge construction and has adopted the method of accepting bids in order to improve quality. It is hoped that the resulting fruits will be widely utilized, and that other specialities will catch up in this regard.

C. Integration of technical progress in pulling power with the selection of slope norms according to local conditions. It seems that the selection of rail line locations in China has proceeded on a course opposite to that of adapting to local conditions. This is one of the major reasons for large engineering scales and high construction costs. It would seem rational to call for high slope norms in consideration of large hauling capacities or heavy-capacity cars, but it should be realized that due to the accelerated pace of technological progress in pulling power, engines used on major lines 10 years from now may not have the same pulling and braking power as those use used at present. Therefore, we should break through the old frameworks and continue to reform in order to expand capacity, given definite slope norms or selecting economically rational slope norms according to local conditions based on the needs of a definite transport-hauling volume and train weight, thereby lowering construction costs.

III. Foundation of Scientific Policy Making--Appraising Economic Returns and Fixed Norms for Operational Expenditures

A. Regarding the social and economic benefits of railroad construction, in 1984 the planning commission put forth Document No 1,879 entitled "Provisional Measures for Economic Evaluation in Feasibility Studies for Railroad Construction Projects." There still remains the problem of imperfect methods to calculate social benefits and of the amount of time required to retrieve the original investment, which must be further studied.

B. The social benefits of hauling coal by rail. Whether or not grounds of evaluation used in current research reports and relevant theses are scientific is worthy of analysis and study. From the reports or theses cited, it can be seen that the benefits of railroads have been exaggerated and the irrationality of construction costs has been covered up. Therefore, it is necessary to conduct research and suggest quantitative, scientific methods of evaluation.

The "Norms and Explanations for Expenditures in Railway Design Plans" originally approved by the Ministry of Transportation in 1974 is now out of date, as there have been a great many changes, and should be readjusted and altered as soon as possible.

12221/13045
CSO: 4006/1268

END

JPRS-CEA-86-115

30 OCTOBER 1986

China Report

ECONOMIC AFFAIRS

FBIS FOREIGN BROADCAST INFORMATION SERVICE

JPRS-CEA-86-115
30 OCTOBER 1986

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

NATIONAL POLICY AND ISSUES

Gap Between East, West China Reported Widening
(Guo Zhongshi; CHINA DAILY, 23 Sep 86) 1

LIAOWANG Evaluates PRC Economic Situation
(Hei Aitang, Zhang Junkuo; LIAOWANG OVERSEAS EDITION, No 38, 22 Sep 86) 3

LIAOWANG on Evaluating Construction Projects
(Yun Lin; LIAOWANG OVERSEAS EDITION, No 38, 22 Sep 86) 7

RENMIN RIBAO on Financial Theoretical Seminar
(Chen Dehong, Hu Xuehao; RENMIN RIBAO, 19 Sep 86) 10

Commodity Economy Development, Economic System Reform
(Liu Guoguang; SHIJIE JINGJI DAOBAO, 14 Jul 86) 12

ECONOMIC DEVELOPMENT ZONES

Bohai Bay Economic, Technical Development Zone Discussed
(Yang Haitian; KEXUEXUE YU KEXUE JISHU GUANLI, No 6, Jun 86) 20

ECONOMIC PLANNING

Hainan Draws Up Plan for Construction of Yangpu Port
(Guangdong Provincial Service, 24 Aug 86) 24

AGGREGATE ECONOMIC DATA

Guangdong Province Economic Growth Rate Soars
(XINHUA, 24 Sep 86) 25

ECONOMIC MANAGEMENT

Economic Reforms in Liaoning
(Yang Dongyi; WEN WEI PO, 15 Jul 86) 27

FINANCE AND BANKING

Bankruptcy Law in Shenyang
(Yang Dongyi; WEN WEI PO, 16 Jul 86) 29

Rectification of 'Small Cash Box' Problem Discussed
(Li Xiaobo; CAIZHENG YANJIU, No 7, 28 Jul 86) 31

Shenyang Plans Stock Exchange
(Yang Dongyi; WEN WEI PO, 17 Jul 86) 38

INDUSTRY

Development Strategy for Ningxia Metallurgical Industry
(Hei Baili; NINGXIA RIBAO, 26 May 86) 40

Modernization in the Automobile Industry
(WEN WEI PO, 25 Jun 86) 44

Three Changes Urged in Industrial Development Strategy
(Zheng Xiaonong; JINGJI RIBAO, 30 Jun 86) 46

Latent Crisis Looms Over Industrial Enterprises
(Zhang Gaopeng, Yao Wenbin; LIAOWANG, No 27, 7 Jul 86) ... 49

Export of Light Industry Products Shows Sizable Increase
(ZHONGGUO QINGGONGYE BAO, 31 Jul 86) 52

Shenyang's Tiexi Zone Plans Renewal Program
(Liu Shanhong; CHINA DAILY, 10 Sep 86) 54

Briefs
Sichuan Industry, Communications 57

SMALL-SCALE ENTERPRISES

Boom in Anhui Township Enterprises
(Wang Yuzhao; NONGMIN RIBAO, 12 May 86) 58

Jiangxi Plans To Speed Up Township Enterprise Development
(Zhu Bei; ZHONGGUO XIANGZHEN QIYE BAO, 9 Jul 86) 62

On Hubei's Township Enterprises
(RENMIN RIBAO OVERSEAS EDITION, 24 Jul 86) 65

Township and Town Enterprises in Ascendancy
(He Kang; ZHONGGUO XIANGZHENQIYE BAO, 20 Aug 86) 67

Development of Township and Town Enterprises Reviewed
(Zhou Handa; ZHONGGUO XIANGZHENQIYE BAO, 20 Aug 86) 70

CONSTRUCTION

Construction Begins on Bridge Across Songhua Jiang
(Zhou Yanhe, Zhang Limin; HEILONGJIANG RIBAO, 3 Jul 86) ... 72

Improvement of Construction Quality Urged
(Ge Daxing; RENMIN RIBAO, 13 Aug 86) 73

Hebei: Construction of Blast Furnace Begins
(HEBEI RIBAO, 16 Aug 86) 75

DOMESTIC TRADE

Sichuan's Domestic Trade Seen as Vigorous
(Gu Guocai; SICHUAN RIBAO, 10 Jul 86) 76

FOREIGN TRADE AND INVESTMENT

Anhui Makes New Use of Foreign Investment in 1986
(Han Shu; ANHUI RIBAO, 28 May 86) 78

Foreign Exchange Loans to Yunnan Increased in Sixth 5-Year Plan
(Zhou Xiyuan; YUNNAN RIBAO, 27 May 86) 79

Ningxia Commodity Inspection Bureau Aids Foreign Trade
(Pan Mengyang, Jiang Senlin; NINGXIA RIBAO, 8 May 86) 81

SPECIAL ECONOMIC ZONES

Investment Climate in Special Economic Zones
(Chen Zhaobin; GUANGDONG SHEHUI KEXUE, No 2, Jun 86) 83

Shenzhen's Economic Development Strategy
(Liu Peiqiong; GUANGDONG SHEHUI KEXUE, No 2, Jun 86) 89

POPULATION

On Beijing's Aging Population
(Shi Yan, Shi Lin; BEIJING RIBAO, 7 Jul 86) 95

TRANSPORTATION

Tra[illegible]rt Cargo Volume Shows Increase
(CHINA DAILY, 20 Aug 86) 99

Briefs
Railway Construction Projects 100
Direct Charted Flights Begin 100

/9986

NATIONAL POLICY AND ISSUES

GAP BETWEEN EAST, WEST CHINA REPORTED WIDENING

HK230201 Beijing CHINA DAILY in English 23 Sep 86 p 1

[Article by Staff Reporter Guo Zhongshi]

[Text] The historical gap between the eastern part of China, which enjoys the highest cash income in the country, and the poverty-stricken western part has widened despite the fact that the west is benefiting from current economic reforms.

Although the west is being slowly helped out of poverty, a fundamental change depends heavily on adoption of effective measures to utilize fully the surprisingly rich natural resources lying untouched beneath the ground, according to the State Statistics Bureau.

A recent survey by the bureau in eastern, central and western China, shows that the speed of development of agriculture, industry and transport as well as the growth of retail volume and farm income still differ sharply, calling for urgent action to turn resource superiority into economic superiority.

The eastern part comprises eight coastal provinces and the three municipalities of Beijing, Tianjin and Shanghai. The central part includes Heilongjiang, Jilin, Shanxi, Inner Mongolia, Henan, Hubei, Hunan, Anhui and Jiangxi. All the rest of the country is considered western.

Agricultural and industrial output last year was valued at 692.7 billion yuan ($190 billion) in the east, 352 billion yuan ($90 billion) in the central area and 172.1 billion yuan ($47 billion) in the west.

In the west, output of grain, cotton and oil dropped last year below the 1980 level, while in the east it was rising steadily.

According to the bureau, total investment in capital construction by State organizations and enterprises was 162.7 billion yuan in the five years from 1981 to 1985 in the east part, 99.7 billion yuan in the central area and 58.8 billion yuan in the west.

Poverty in the west is attributed to shortages of transport, technology, equipment, educational facilities and money.

China still has 27.32 million people in rural areas who suffer shortages of food and clothing with an average net income of 150 yuan a year; 65.8 percent of them live in the west.

People are moving out of the west to the economically developed eastern and central regions, especially skilled workers and technicians, seriously affecting development of the west.

The bureau suggests that the east which lacks raw materials and energy, should join in exploration and exploitation of the natural resources of the west for its own benefit.

As the west has been a major base for the country's military industry, enterprises engaged in military production could use their technology, equipment and technicians for civilian production of nonferrous metal, chemical and energy industries, the survey report says. They could also help local enterprises develop high-tech products.

With large proven deposits of many minerals and rich resources in water, forests and grassland, the west could well achieve prosperity if policies made according to the specific conditions of the west are adopted, the bureau says.

/7358
CSO: 4020/11

NATIONAL POLICY AND ISSUES

LIAOWANG EVALUATES PRC ECONOMIC SITUATION

HK280610 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No. 38, 22 Sep 86

[Article by Hei Aitang [7815 1947 1016] and Zhang Junkuo [1728 6511 2368]: "Analysis of the Current Economic Situation and Remedial Measures"--passages within slantlines published in boldface]

[Text] By adopting a series of measures to strengthen macroeconomic control, the central authorities were able in the first half of this year to achieve some success in solving the problems of an inflated gross demand and of an overheated economy, which were precipitated in the fourth quarter of 1984. The ultra-high industrial growth rate was halted. The growth rate between January and July was 5 percent. There was quite an abundant supply of retail goods, prices were stable, savings of both urban and rural dwellers increased significantly, much currency was efficiently withdrawn from circulation, and the situation was quite favorable compared with the precarious situation last year. This is a stable aspect of the current economic situation.

On the other hand, since China has just embarked on the reform of its urban economic structure, a development pattern characterized by the attainment of constantly better economic results still leaves something to be desired. In addition, since the implementation of its tightening policy is not satisfactorily combined with its efforts to regulate its economy, there is the problem of "too much uniformity." Thus, despite the success in controlling the total figures [zong liang--4920 6852], problems concerning the economic structure are becoming more and more serious and, despite the sustained economic growth, the economic results are becoming less and less gratifying. The control of the total figures is an administrative constraint incapable of checking excessive growth. Thus, whenever it weakens, the pace of growth will quicken again. At present, some people are still calling for efforts to increase investment and stimulate demand. This is an omen that merits our attention.

The Practice of Distributing Too Much of the Country's National Income Remains Unchanged

In the first half of this year, investment in fixed assets by enterprises owned by the whole people totaled 48.9 billion yuan, a 173 percent increase over the same period in 1985. Since this growth rate is even higher than last year's ultra-high growth rate, obviously it is a very high growth rate. It is planned that this year, enterprises owned by the whole people will invest 157 billion yuan in fixed assets, 7 percent less than last year's 168 billion yuan. However, it can be seen from the picture in the first half of this year that investment in fixed assets is still increasing. Compared with that in the same period in 1985, the total amount of the banks' cash wage payments in the first half of this year was 20.5 percent greater. The wages of the workers of enterprises owned by the whole people increased by 20.1 percent. These two figures are much greater than the growth rates of industrial production, of light industrial production, and of productivity in the first half of this year, which were 4.9 percent, 5.1 percent, and 0.2 percent, respectively.

Thus, it can be seen from the increase in investment and consumption funds that although the growth rates in the first half of this year were lower than those in 1985, the practice of "distributing too much" has not fundamentally changed. Particularly as a result of the "distribution of too much" of the country's national income over the past few years, problems have accumulated and developed into a few "hidden trends." If these are not properly resolved, they will affect the steady development of the country's national economy.

The Several "Hidden Trends" that Merit Our Attention

/Economic results are declining./ Compared with those in the first half of last year, the output value of budgeted state-owned industrial enterprises was 3.1 percent greater, their income from sales of their products was 6.3 percent higher, but the total amount of taxes and profits collected was 2.2 percent smaller in the first half of this year. In addition, both the number of money-losing enterprises and their losses grew, whereas production declined in the industrial enterprises in large cities and in old industrial bases. All this is not a result of some unforeseen circumstances, but mainly a reflection of the protracted contradictions between the old economic structure and economic development.

/There is still a shortage of working funds./ The shortage of working funds is less serious now than at the beginning of this year. However, the problem has become less serious at the expense of economic results and because people are borrowing more and more money. In the second half of this year, industrial production will grow at a quicker pace, the enterprises will expand their purchasing and marketing business, and, in particular, some enterprises will have to purchase and store up vast quantities of raw materials. Thus, it is inevitable that the need for working funds will be much greater than that predicted by the state plans. The industrial enterprises' great demand for loans to be used as working funds is basically a result of the fact that investment in fixed assets has absorbed a very large portion of their working funds. Since 1983, when the banks assumed sole responsibility for the supply of working funds, the ratio of the amount of working funds accumulated to the total amount of all kinds of funds accumulated has dropped from about 30 percent to 16 percent and the contradictions between demand and supply have been steadily sharpening. The practice of using reserve working funds to expand investment in fixed assets can only step up investment with the undesirable result that there will be a greater demand for working funds. Another two important reasons for the decrease in working funds are that some enterprises have used working funds for wage and bonus payments and that turnover has become slower. Thus, it can be seen that behind the shortage of working funds, there are complicated problems concerning the economic system and the economic structure. These problems cannot be resolved simply by making money tight or easy. We must try to fundamentally resolve them by summing up experience.

/Import exceeds export in foreign trade./ Although in the first half of this year China was able to very satisfactorily execute its export plans, however, since this year's imports were arranged on the basis of last year's overheated economy and have to be paid for with much of China's foreign exchange on hand, import will still exceed export this year. The prices of oil, tin, tungsten, sand, and agricultural and sideline products have fallen sharply on the international market. This adversely affects China's exports. Thus, it is necessary to alleviate the financial pressure by broadening sources of revenue and reducing expenditure.

/The slow increase in revenue./ This year's financial budget was prepared on the basis of last year's ultra-high growth rate. Thus, it recommends high expenditure. According to the relevant departments, because of some special circumstances, there was an increase of more than 40 billion yuan in revenue last year. However, this year, these special circumstances are either non-existent or rapidly disappearing. Thus, some sources of revenue are missing. Our experience tells us that normally, China's revenue exceeds its expenditure in July and August. However, this happened in April this year. Because of the declining economic results, the increase in the amount of foreign trade subsidies, and the decrease in the income derived from custom duties, it is unlikely that there will be a drastic increase in revenue in the second half of this year. The finance departments are now trying to prevent expenditure from increasing.

Possible Remedial Measures

Summing up the above points, one can say that basically, the current economic situation is characterized by the coexistence of stabilizing and destabilizing factors. The authors' opinion is that given the complicated circumstances, it is necessary to thoroughly solve this problem by adopting the following remedial measures:

1. Leaders responsible for economic work should shift the focus of their work onto improving and strengthening macroeconomic control and restraining the gross demand of society in order to create an agreeable economic environment for the reforms. If we cannot put gross demand of society under control, we will find that thee will be tension and risks and that the reforms cannot be smoothly carried out. This is a very important condition for facilitating the reforms in the future and for the sustained, steady, and coordinated development of the national economy.

2. It is necessary to take another look at the country's financial resources, its credit funds, its supply of goods and materials, and its foreign exchange reserves, to resolutely cancel, on the basis of the principle of keeping expenditure within the limit of revenue, those projects and arrangements that

we can ill afford, and to try to bring about a balanced national economy with balanced components. The banks should try their best to absorb deposits and to increase the sources of capital in order to balance their income and expenditure regarding their credit service.

3. It is necessary to resolutely restrain the demand for investment funds. By restraining the demand for investment funds, we can contain consumption somewhat. In order to restrain the demand for investment funds, it is first necessary to put construction under control. If construction is allowed to become too extensive, it would be difficult to put investment scale under control. Recently, the central authorities have made up their minds to sort out the ongoing construction projects. The most urgent task now is to resolutely cancel a large number of projects. Otherwise, the contradictions cannot be resolved. The main problem at present is that extra-budgetary investment has gone out of control. Thus, it is necessary to devise some methods on the basis of the actual circumstances in order to put extra-budgetary investment under control. Otherwise, restraining the demand for investment funds is just idle talk.

4. It is necessary to earnestly readjust the national economy. It is first necessary to properly readjust the distribution of investment and, at the same time, devote vigorous efforts to readjusting existing enterprises. It is necessary, by making overall arrangements, to strengthen planning in various industries and trades, to offset weak points with strong points, to encourage the competent, to weed out the incompetent, to develop lateral economic ties, to reorganize and combine enterprises, and to strengthen technical transformation by improving the cooperation between specialized departments.

It is necessary to constantly readjust the product mix in the light of market changes and to improve the quality of products. With the in-depth development of the economic reforms, the enterprises will be required to gradually make the perfection of their internal mechanisms and the readjustment of their product mix "automatic and spontaneous."

/12913
CSO: 4006/23

LIAOWANG ON EVALUATING CONSTRUCTION PROJECTS

HK261344 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No. 38, 22 Sep 86 pp 13-14

[Article by Yun Lin [1926 2651]: "Major Changes in China's Policy Decision on Economic Construction"]

[Excerpts] Abstract: In the past, many construction projects in China caused acute waste because they were started in haste without sufficient technological and economic information. In this connection, Chinese Premier Zhao Ziyang gave his views on the question: "From now on all major construction projects should be discussed and examined by a consulting company before they start, and should not be decided on by leading administrative bodies alone [word indistinct,] China international engineering consultants incorporated is charged with the task. [end abstract]

In March this year, the China nonferrous Metal Industry Corporation submitted a draft investment plan to the State Planning Commission for approval. The plan was drawn up for building a copper product plant to be jointly run by Fuzhou City and the American Century Brass Foundry, with a total investment of U.S.$36 million. To this end, China International Engineering Consultants Incorporated carried out in-depth investigations on world market prices, the present state of processing copper product in the country, and the financial standing of the American investor. It was finally proved that equipment of the American Brass Foundry was obsolete and overestimated in cost and its financial standing was not fine. Moreover, as early as last year the factory presented a bankruptcy petition and sold all its equipment at auction. Therefore, the consultants incorporated came to the conclusion that the joint investment was not feasible. In addition to this, China's current capacity for processing copper products is stronger than its productive capacity to produce copper but the existing capacity is not fully used; however there is only a small profit to be made for marketing copper products in the world market. For this reason, from both the technological and economic point of view, it is not wise to invest in the joint venture.

This is one of the cases handled by China International Engineering Consultants incorporated, the biggest company of its kind in China, which has accepted 167 construction projects from the government to look into the feasibility of investment.

Make An Overall Appraisal of An Investment Project Before Coming To a Decision

With approval of the State Council, in April and June this year the State Economic Commission and the State Planning Commission twice issued a joint circular to the nation, stating: from now on the feasibility study reports on building large and medium-sized capital construction projects and non-technological transformation projects as well as designing large projects should be first examined by China International Engineering Consultants Incorporated for their technological planning and economic effects before the State Planning Commission list them in the state plan. All projects which are found not practical should not be listed in the state plan. This is an important reform for China's policy decision on economic construction.

There are two principal lessons that we can draw from economic construction carried out since 1949. One is the frequent occurrence of excessive investment in fixed assets; and the other is inadequate preparations for construction projects. In the past leading bodies often decided on the construction of many projects without sufficient technological and economic information. These projects were started in haste without getting things ready beforehand such as evaluation work and design, thus causing a prodigious waste of money.

Such a situation was bound to change. Since 1979, China has paid attention to deciding on major construction projects in a scientific and democratic way. We devoted much time to feasibility studies of such large construction projects as the Baoshan iron and steel complex and the three-gorge project, but the study of some projects was undertaken when problems arose after a policy decision was made. Premier Zhao Ziyang pointed out: "From now on all major construction projects should be discussed and examined by the consulting company, and should not be decided on by leading administrative bodies alone." Hence, China International Engineering Consultants Incorporated has been charged with this heavy task.

An Engineering Consultancy Group Has Risen in the Execution of Reform

China International Engineering Consultants Incorporated was established in 1982. Its major tasks then were to offer engineering consulting in using foreign funds, to help carry out technological transformation in the existing Chinese enterprises in accordance with an agreement reached between the Chinese and Japanese governments, and to take part in the planning work in open coastal cities and the special economic zones. That is why the company is named International Engineering Consultants Incorporated. This year the company has placed emphasis on undertaking feasibility studies of major construction projects, but its name remains unchanged.

Today China International Engineering Consultants Incorporated has become a large engineering consultancy association with 43 branches and numerous cooperative units in key economic departments throughout the country. Meanwhile, the company employs a large number of experienced technical personnel and economic experts in the fields of hydropower stations, transportation, chemistry, textiles, light industry, machinery, electronics, aviation, and construction. In September this year the company set up [words indistinct] leading group--a committee of experts--with many noted economists and learned people such as Li Renjun, Ma Hong, and Wei Yuming as their advisers.

Song Ping, chairman of the State Planning Commission, said: The examination of construction projects must be made by an impartial organization, and the order of an individual official should not be taken as a final decision. China International Engineering Consultants Incorporated is a company in essence, not a profit-making company, that bears full responsibility for the state.

Experts and staff of this non-profit-making company are well aware of their duties and are proud of their work of making policy decisions on major construction projects. Thanks to its galaxy of talent with different kinds of professional knowledge working in its 43 branches, China International Engineering Consultants Incorporated gives full play to its immense assets and potential. The company, which is directly under the State Planning Commission, keeps abreast of new developments in the national economy. These favorable conditions help the company occupy a leading position in offering consultant services for making policy decisions on our country's major construction projects.

At present China is working to establish a system of targets and parameters as an important norm for making technological and economic feasibility studies of construction projects. Thus our work of examining the feasibility of construction projects will be more scientific.

The remaining problem is a legal one, which will ensure the implementation of policy decisions made on construction projects through scientific examination.

/12913
CSO: 4006/23

RENMIN RIBAO ON FINANCIAL THEORETICAL SEMINAR

HK240603 Beijing RENMIN RIBAO in Chinese 19 Sep 86 p 5

[Report by Chen Dehong [7115 1795 4767] and Hu Xuehao [5170 1331 1170]: "Several Viewpoints at the Meeting To discuss Basic Financial Theories"]

[Text] The third national seminar on basic financial theory held by the China Society of Finance put forth some noticeable viewpoints concerning some theoretical issues in the current economic structural reform.

The economy under the whole people ownership system should continue to hold a dominant and leading position in the national economy, so it is not advisable to take the forming of joint-stock companies as the goal in reforming our socialist ownership.

Most comrades at the meeting held that in order to maintain the socialist form of production, it is necessary to ensure the dominant and leading position of the economy under the whole people ownership, and this is also in line with the requirements of the planned socialist commodity economy. It is not correct to attribute all errors and problems in our socialist construction to ownership by the whole people or state ownership and thus lose confidence in the socialist public ownership system. As for the joint-stock economy appearing in the course of reform, many comrades held that the joint-stock economy should be developed in a planned way as a method to raise funds and form economic combinations, but it should not be taken as the goal in our socialist ownership reform. Changing state-owned enterprises into joint-stock companies will not really solve the existing problems in these enterprises; instead, the results of distribution according to capital will just disintegrate our socialist public ownership system. The main way to carry out reform of our whole people ownership economy is to properly handle the relationship between the state and enterprises in the aspects of powers, responsibilities, and interests, to strengthen the economic responsibility system, and to improve the state's overall economic management and control.

The market mechanism cannot automatically guarantee the smooth operation of the economy as a whole and cannot ensure the rational distribution of resources and the forming of a reasonable economic structure.

Most comrades held that the market mechanism cannot automatically lead to the smooth operation of the economy as a whole and cannot ensure the rational distribution of resources and the forming of a reasonable economic structure. The planned socialist commodity economy requires that markets be organized and managed in a planned and centralized way, so the state must not give up its management over markets, its organization of markets, and its interference in markets. The seminar also thoroughly discussed the development of the capital market and the reform of the prices of the production materials. Comrades at the meeting generally held that the capital market in our country should be different from those in the capitalist countries. State financial arrangements should be combined with banks, and both sides should play a positive role in developing and perfecting our capital market. The reform of the prices of production materials is an urgent issue that we must deal with at present, but we still have to carefully study the immediate targets and concrete steps for price reform in this regard and should give consideration to all relevant quarters' capacity of bearing the impact of the reform, the adaptability of our economic structure, and the imbalance between total supply and total demand in our country so as to prevent serious social and economic shocks. In addition, we should not overestimate the role of price reform and should promptly study and adopt corresponding reform measures in other fields.

Reform must be carried out under the premise of adhering to the socialist general orientation, and we must oppose the indiscriminate copying of the capitalist pattern and the exaggeration of the role of free competition and the market mechanism.

Comrades at the seminar pointed out that our reform must be in line with the socialist general orientation. It is necessary to have a correct understanding of the planned commodity economy and to oppose the indiscriminate copying of the capitalist economic pattern. The role of free competition and the market mechanism must not be exaggerated to an inappropriate degree. It is necessary to correctly understand the relation between reform and the economic environment. Reform is a means rather than a final objective. A good socioeconomic environment should be created by means of reform. Successful reform requires protracted and great efforts, and success will not be made in just one single move. We should fully understand and implement the Marxist principle of material interests in reform. Consideration should not only be given to the people's individual and immediate interests, but should also be given to their long-term and overall interests.

/12913
CSO: 4006/23

COMMODITY ECONOMY DEVELOPMENT, ECONOMIC SYSTEM REFORM

Shanghai SHIJIE JINGJI DAOBAO in Chinese 14 Jul 86 pp 14-15

[Article by Liu Guoguang [0491 0948 0342]: "Development of the Commodity Economy and Reform of the Economic System"]

[Text] The planned commodity economy is an extremely important theoretical standpoint of the socialist economy. It was written into a document setting forth the decision of the 3d Plenum of the 12th CPC Central Committee to reform the economic system. That shows the close relationship between the development of the socialist commodity economy and the reform of the economic system. My purpose is to present my views on the relationship between the two as well as on certain problems that have cropped up during the transition of the old system to the new and of the noncommodity to the commodity economy.

I. Traditional Economic System Hampers Development of Commodity Economy

The commodity economy has not been developed the way it should since the establishment of the republic over 30 years ago because the traditional economic system is a highly centralized system of a planned economy that has no place for the market mechanism. This system is marked by the following features: (1) The increasingly unitary nature of the economic components and the ownership form; (2) the power of policy marking is highly centralized in the hands of the government so that the enterprises must take orders from the higher authorities in their operations; (3) economic activities are mainly adjusted by direct administrative measures and the enterprises must engage in their operations in line with the directive input and output quotas handed down by administrative organizations; (4) insofar as the distribution of income is concerned, the egalitarian system prevails as the enterprises make it a practice to eat out of the same big pot of the state and the staff workers to eat out of the same big pot of the enterprises; (5) in the organizational structure, there is no demarcation of the responsibilities of the administrative units and the enterprises as vertical jurisdictional relations govern the operations of the departments, localities, enterprises.......... (2) The market mechanism is placed under severe restrictions. Since the means of production are not considered commodities, the commodity market has been rendered extremely fragmentary. Deprived of such key productive elements as funds and labor, the market pays no heed to the function of the law of values, so that prices are extremely out of whack and the market plays virtually no part in the coordination of the economy. (3) The direct management of productive operations by the state has not only made it necessary for state enterprises to engage in production and exchange operations according to the directive plan, but the overwhelming majority of the productive operations of the collective economic units in the cities and rural areas have also been brought into the monopoly purchasing and exclusive selling system so that the vertical and horizontal demarcations have cut off the horizontal economic relations inherent in the commodity economy.

Theoreticians differ as to the guiding thought behind the traditional economic system. Some comrades are of the view that it is based on the product economy, while others believe it is based on the natural economy. By the product economy is meant that, as Marx and Engels had occasion to predict, the commodity-money relationship would shed its economic pattern following the victory of the socialist revolution..... As was pointed out by Comrade Sun Yefang [1326 0396 2455], "to regard the socialist economy as similar to the material economy under the communist society" is merely to replace the essence of the primitive tribal economy with a unified and centralized planning organization for providing leadership in the economic activities of the entire society." ("Certain Theoretical Issues in the Socialist Economy," p 60) The two ideas are consistent in that they both refute the relationship between commodities and money and the issue of circulation. However, the original idea of the product economy theory is that it can only be applied when there is an abundance of products at some future date, so that it has elements of an idle dream at the present time. On the other hand, the natural economy theory, being the product of the long-term backward and sealed-off economy that prevailed in the past, is replete with feudalistic ideas. Insofar as our traditional economic system is concerned, while both the product economy and the natural economy theories have exerted their influence in the field of thought, that exerted by the natural economy theory has been of greater consequence. The actual circumstances of our nation are such that the natural economy has been in continual existence for several thousand years. Although the roaring guns of the Opium War ended the natural economy, the development of the commodity economy was so slow and the self-sufficient and semi-self-sufficient economy so deeply rooted that concepts of the natural economy have continued to wield their tenacious restraints on our economic activities. The economic system marked by vertical and horizontal demarcations has become a system of its own, a system that seeks to accomplish what is large and comprehensive as well as what is small but all-inclusive, that continues to follow the beaten path and to close the country to international intercourse, that has no conception of time and value, that avoids any talk of profit, and that stands in fear of competition. All these phenomena are indications of the influence exerted by the self-sufficient concept of the natural economy. Many units have come to resemble the manor house type of natural economy by becoming miniature societies that have taken on the business of attending to problems relating to births, aging, sickness, deaths, eating, drinking, the emptying of bowels, culture, education, politics, and the law.

The wartime communist supply system adopted in the isolated revolutionary bases during our revolutionary war had had its salutary effect under bitter combat conditions. The practice of "eating out of the same big pot" and of "holding on to the iron rice bowl" prevailing in the financial and economic management system, while having the earmarks of a certain supply system, is also a reflection of the conditions that go with the natural economy. It is only to be expected that the dissemination and erroneous acceptance of the views of Marx and Engels regarding the direct management of the production and distribution of commodities by society at some future date and the view of Lenin that the entire economy in society should be managed like a big factory or syndicate should have given our traditional economic system dominating our concept of the natural economy in the past the semblance of the product economy. In any case, that the traditional economic system is affected by the product economy theory is mainly the result of book learning and the basic concept. That the traditional economic system is also affected by the natural economy theory is borne out by the facts of life. The traditional economic system, which does not recognize the commodity economy, is characterized by the "noncirculation theory." Many of the drawbacks of the traditional system of replacing the circulation of commodities with the distribution of products may be traced to this special feature.

During the 30-year period preceding the 3d Plenum of the 11th CPC Central Committee, certain changes have taken place in our economic system. However, the ideas of the natural economy which had emerged under the guise of the product economy have all along cast a shadow over various aspects of our economic operations. The natural economy, which rejects the division of labor, market conditions, and the idea of competition, makes it impossible to develop the commodity economy so that the socialist economy, which should be brimming with vitality, has become increasingly ossified and incapable of fully developing its advantageous position. There is therefore no way to develop the commodity economy unless the bonds imposed by the natural economy theory are broken and the economic system is reformed.

II. Reform of Economic System To Meet Demands of Planned Commodity Economy

Where we should direct our efforts in our reform is a question often asked in connection with the purpose and pattern of the reform of our economic system. Throughout the years, different people have espoused different ideas. Should our economic reform, for instance be brought about by introducing partial amendments and improvements, or should it be done by changing the entire pattern? Should it be carried out mainly in accordance with the directive plan or the guidance plan? Since the decision was made by the 3d Plenum of the 12th CPC Central Committee to reform the economic system, it has been unanimously agreed that the socialist economy should be the planned commodity economy and that the reform of the system should be carried out in that direction. However, there is still a considerable difference of opinion as to what is meant by the planned commodity economy, with some stressing the "commodity economy" aspect and others the "planned" aspect. In a recent article, for instance, a professor at Beijing University had occasion to point out that "the basic trend of thought behind economic reform is that the socialist economy must first of all be a commodity economy before the commodity economy can be developed according to a plan," thus putting the emphasis on the commodity economy. On the other hand, a professor at Renmin University emphasized in a recent article that "the planned economy or planned readjustments should from beginning to end occupy a dominant position in the socialist economy" and that "so long as the socialist economy practices the public ownership system and the planned economy makes room for readjustments, the development of the role of the market mechanism will not in any way or form take on the features of capitalism." While emphasis is put on the planned economy, the point of emphasis varies and the purpose and pattern of reform also differ. Regarding the purpose and pattern of the planned economy, there are those who stress the indirect role played by the market in bringing about coordination while others stress the direct role which should be played by the government. Regarding the concept of the reform of the economic system in socialist countries, the international community also differs in its understanding. For instance, the reform being brought about in Hungary has now taken on the pattern marked chiefly by the indirect role played by the administration in bringing about coordination. Economists who favor this pattern believe that all the system needs is a greater degree of perfection, while others, such as Kolnar, are of the opinion that the present pattern marked by indirect administrative coordination must be changed into that marked by market coordination as a means of exercising macroeconomic control. This divergence of views is entirely natural and normal. It is only through the contention of 100 schools of thought that we can achieve a higher level of understanding. The relationship between the making of plans in the planned economy and the market in the commodity economy is such that it is impossible to bring about administrative coordination through planning or the totally laissez-faire market mechanism. For this reason, the crux of the discussion is how to find a more suitable common ground between the two extremes. This calls for a specific analysis based on specific circumstances. Generally speaking it is necessary for us to pave a road for developing the socialist commodity economy and to establish step by step a market coordination mechanism capable of exercising leadership in planning and macroeconomic control.

To bring about reforms to develop our socialist commodity economy and to remove obstacles that stand in the way of the system, we must enhance the vitality of the enterprises as producers and operators of commodities and create the external conditions and internal mechanisms necessary for the healthy development of the socialist commodity economy. In line with this trend of thought, the basic major points regarding the purpose and pattern of the reform of the system are as follows: (1) Since the old unitary structure of the ownership system is inimical to the development of the commodity economy, efforts should be directed toward the establishment of a new structure marked by the coexistence of various ownership systems based mainly on the economy of the public ownership system and the joint development of diversified operations. It is especially important to correct the situation under which no authority is given to the large and medium-size state enterprises so that they may truly become relatively independent socialist producers and consumers of commodities who are responsible for their profits and losses; (2) The relationship between the highly centralized decision-making structure and the paternal and patriarchal type of government on the one hand and the enterprises on the other hobbles the development of the commodity economy. Changes should be made to establish a system that would enable the state, the enterprises, and the families to make decisions at various levels and to perform their duties within the scope of their responsibilies. The state should mainly concern itself with policy-making in the management of the macroeconomy while decisions in microeconomic activities should, inasfar as possible, be left in the hands of the enterprises and individual families; (3) The directive type of planning of the past, which prevented the market mechanism from playing its proper role, should be reduced in scope while the scope of guidance planning and market adjustments should correspondingly be enlarged and actions smacking of direct control over the enterprises should be replaced by measures that make use of such economic levers as prices, tax revenues, and credit loans to adjust the activities of the enterprises, the market mechanism, and the effect of the law of values to coordinate economic operations under guidance planning; (4) The egalitarian method of distribution underlying the practice of "eating out of the same big pot" and the demands imposed by the development of the commodity economy are mutually exclusive in nature. Reform calls for the establishment of a new distribution relationship between the state and the enterprises and between the enterprises and the staff workers so that a link may be established between the distribution of income on the one hand and economic effectiveness and labor contribution on the other. The principle of more pay for more work should be implemented so that competition may be developed whereby excellence will be rewarded and inefficiency eliminated, and that a system may be established that would provide the motive force necessary to promote the benefits of increasing the rate of efficiency and technical progress; (5) The division of powers of an administrative nature which has resulted in vertical and horizontal divisions and mutual blockades poses a serious impediment to the development of the commodity economy. Although there are many difficulties in the simplification of administrative procedures and the delegation of powers, this objective in bringing about reforms must not be abandoned. In order to achieve this objective, it is necessary that we should reorganize and integrate the enterprises to meet the demands posed by the need to establish a unified market throughout the nation and develop lateral economic relations so that a vertical and lateral criss-crossing type of relationship may be established among the economic organizations. In short, in order to bring about the above-mentioned reforms, it is necessary to establish step by step, properly and organically, a new economic mechanism that can establish a link between planning and the market, the invigoration of the microeconomy, and the exercise of macroeconomic control and centralization and decentralization so as to ensure the continual establishment of a socialist production relationship based mainly on the public ownership system that serves to bring prosperity to all. By establishing a link in economic management among the enterprises, the market, and the state, this economic system will serve to promote the healthy development of the socialist commodity economy. With the increasing independence of the enterprises as commodity producers and users, the gradual establishment of a unified market system, the increasing perfection of the market mechanism, and the gradual transformation of the government's role of intervening directly in the production and operation activities of the enterprises in exercising macroeconomic control over the total amount of production, use can be made of the economic lever to adjust microeconomic activities. In short, with the establishment and perfection of a vital and vigorous economic system, great progress can be made in the development of the commodity economy and socialist modernization projects.

III. Double-track System Based on Coexistence of New and Old Systems

There are two ways to change the old system to the new. One is to bring about the wholesale transformation of the system and the other is to change the old system to the new through a gradual process. Which is the better method? That is a question that has been asked by economic theorists at home and abroad for a long time. It goes without saying that the wholesale method has the advantage of being able to bring about a whole set of changes, thus obviating the "confusion created by a profusion of traffic regulations." However, the circumstances of our nation are such that, instead of adopting the wholesale method to bring about a sudden change in the entire economic system, we have to adopt the method of gradual reform. That is because we have to give consideration to such special features of our nation as the size of the country and the population, the relatively backward state of our economy and culture, the extremely uneven rate of development, and the need to avoid excessively convulsive changes in the interests of the people in the process of reforming the economic system. The adoption of the method of gradual reform will unavoidably bring in its wake a transition period between the old and the new systems. During this transition period, while the new system has just come into being and the old system has yet to be discarded, the coexistence of the old system and the new and the simultaneous use and rejection of the market mechanism have caused confusion and befuddlement in the minds of the people.

The effect of the coexistence of the two systems has made itself felt in all aspects of the economic system during the transition period. Whether it be the enterprise mechanism, the market mechanism, or the state control mechanism, none can free itself from the difficult situation created by the coexistence of the two systems. Although the enterprises are given a certain amount of autonomy in their operations, they are still hamstrung by a variety of vertical and horizontal administrative fetters so that they have no alternative but to keep one eye on the market and another on the higher authorities. While the state has reduced its direct control over the economy, it has yet to exercise its indirect macroeconomic control in an effective manner. Thus, the state has no choice but to resort to administrative measures and to engage in market coordination at the same time. It is this situation that has engendered the dual nature of the activities of the enterprises and that of macroeconomic control exercised by the state.

With the coexistence of the two economic systems, what troubles the minds of the people is the difference between the allotted prices within the plan and negotiated prices outside the plan for the means of production. In actual practice, this phenomenon, created by the existence of the dual system, has also given rise to certain problems in various areas. The planned system has led to the system of dual control over the products inside and outside the plan. Even the same products produced by the same enterprises inside and outside the plan are given different treatment. Regarding the allocation of materials, some are allocated and distributed in a unified manner while others are sold in the market, so that a dual circulation system has been created that involves nonmarket as well as market channels; in the field of construction investments, some of the investment funds are allocated by the state requiring no repayment, while others are raised by the departments, the localities, and the enterprises. Funds are also raised in the form of bank loans, while a start has been made in raising funds in the market. While the existence of various methods of raising funds has given rise to the dual vertical and horizontal investment system, the dual system for pricing the means of production is the most glaring anachronism of the dual economic system.

The existence of different prices for the same means of production within the plan is a special product of the method we have adopted to bring about reforms by gradual degrees. It goes without saying that when there is a shortage of supplies and readjustments are not made to the excessively low prices according to the plan, prices over and above those set by the plan will inevitably prevail. However, the legitimacy of the prices of the means of production in excess of those set by the plan and the approval given to prices according to the double-track system have come into being only in recent years. The basic idea behind the double-track price system is to remove by gradual degrees restrictions on certain products within the plan produced by state enterprises so that they may get into the market and to reduce the relatively high market prices by increasing the ratio of commodities outside the plan while increasing the prices of commodities inside the plan in order to readjust prices by gradual degrees, to bridge the gap between the two prices, and eventually to bring about a uniformity of prices. The advantages and disadvantages of adopting the double-track system for pricing the means of production are so obvious that economists have engaged in heated debate. Emphasis is placed by those comrades who consider it necessary at the present time to adopt the dual system of permitting different prices on the following advantages: (1) It is capable of stimulating production over and above the plan or outside the plan; (2) it enables the units not included in the plan to secure the means of production with greater ease; (3) high prices outside the plan serve to promote thrift and to reduce inefficiency; and (4) by readjusting the ratio between allotted and allocated products and those that are freely circulated in the market, the dual system can exercise control over the level of prices so that the planned allocation of the means of production may have the effect of readjusting the economy. Those comrades who oppose the adoption of the double-track pricing system, on the other hand, point to the following drawbacks: (1) It deals a blow to the state plan and jeopardizes the supply of materials to key construction porjects of the state and key development departments; (2) it is liable to bring chaos to the circulation of commodities and to make it more difficult to exercise control over the market; (3) it damages the role of money as a commodity of equivalent value; (4) different prices for the same articles render the work of accounting more difficult, thus creating confusion in the management of the enterprises; and (5) different prices inside and outside the plan serve to promote the development of small enterprises and to sustain the scale and technical structure of technically backward and deteriorating enterprises. In addition, the excessive difference in prices inside and outside the plan provides an opportunity for exploitation by speculators and profiteers to the detriment of the social climate.

For these reasons, we must look at the positive side of the double-track system as well as the frictions and conflicts it has brought. Because of the eagerness to invest, the expansion of consumption, the loss of macroeconomic control, and excessive demands outside the plan, the gap between list and market prices has been widened and prices that are unreasonably low and unreasonably high have been permitted to exist side by side so that contradictions have been intensified and the double-track system has been further vilified. As from this year, the overall demand has been kept under control so that the gap between list and market prices for many materials in short supply has been reduced and contradictions have been mitigated. At this early stage of the reform, when the vitality of the enterprises has just begun to be enhanced and the mechanism for self-readjustment and self-control has yet to reach a stage of maturity, overemphasis on the importance of achieving partial and short-term objectives is liable to bring about drawbacks of one kind or another depending on the specific conditions prevailing at the time. It is for this reason that we must make a serious effort to analyze the roots of the drawbacks and look at the positive side of the issue. Since we cannot change the old system to the new in one swoop, the adoption of the double-track system is an objective necessity. We cannot revert to the unitary old system just because of the existence of certain conflicts and contradictions. Because of the many problems that the double-track system has brought, some knowledgeable people consider it imperative to do away with it as soon as possible and to adopt the system of unified prices. At an international symposium on macroeconomic control held on board the "Bashan" on the Chang Jiang in September last year, many Chinese and foreign economists expressed the view that the double-track pricing system for the means of production is probably an outcome of our price reform program and that it should be replaced by the single-track system as soon as possible. In short, in view of the conflicts between the new system and the old and the various drawbacks brought on by such conflicts, the coexistence of the two systems over a long period of time is out of the question. For that reason, we must make positive efforts to create the necessary conditions to speed up the transition of the old system to the new and the transition of the noncommodity to the commodity economy.

9621
CSO: 4006/1259

ECONOMIC DEVELOPMENT ZONES

BOHAI BAY ECONOMIC, TECHNICAL DEVELOPMENT ZONE DISCUSSED

Tianjin KEXUEXUE YU KEXUE JISHU GUANLI [SCIENCE OF SCIENCE AND MANAGEMENT OF S&T] in Chinese No 6, Jun 86 pp 15-16

[Article by Yang Haitian [2799 3189 3944]: "A Preliminary Study on the Establishment of Bohai Bay Economic Zone"]

[Text] I. Bohai Bay is the largest bay of the continental sea, stretching from Dandong [0030 2639] to Qingdao, with a dozen coastal cities forming a uniform circular formation. This area has its own characteristics and superior points.

1. Geographic superiority--The Bohai Bay area is composed of Liaodong peninsula, Shandong peninsula, Beijing, Tianjin and Tanggu, with the Bohai Sea in front, reaching to the Pacific Ocean, and the vast hinterland of Northern China, Manchuria, Northwest and Central China behind. The five large seaports of Dalian, Qinhuangdao, Tianjin, Yantai and Qingdao have trade with more than 150 countries and districts in the world and contact with every place in the country, with a dozen main raliway lines, 20 commercially used rivers, 50 airways and highway networks. This area is also the starting point of the two "inland bridges." The first is Dalian where commodities land and can be transferred through Manzhouli to join the Siberian Railway; the other is Tianjin where commodities land and can be transferred through Erenhot and Mongolia to join the Siberian Railway. We can say that the geographic superiority and convenience in communications and transportation in the Bohai Bay area are second to none.

2. Vitality in technology and educational strength. The Bohai Bay area is one of the areas with the highest S&T levels in the country; including Beijing, there are more than 100 regular colleges and universities, more than 200 technical secondary schools, 800 natural science research institutes and nearly 600,000 S&T personnel. In the place are gathered many important research institutes of the country, and many specialists and scholars who are well-known throughout the country and the world; in addition, it embraces a large troop of skilled old workers. This rich, intensive intellectual resource is second to none in the country.

3. Rich natural resources. The Bohai Bay area contains the four oil fields of Shenli, Huabie, Dagang and Liaohe, which embrace an offshore oil and gas

region of impressive reserves. It encloses several large coal mines such as Kailuan and Jingxi; and large iron mines such as Anshan and Jidong; it includes the salterns where more than half of the nation's salt is produced. Furthermore, the Shandong peninsula and Liaodong peninsula are also two famous agricultural areas. With such abundant natural resources, the Bohai Bay area can be called richly endowed by nature.

4. Vast space for further development. Along the 5,000 km coast line of Bohai Bay, there are saline and alkaline wastelands and beach accretions which provide favorable conditions for the expansion of productivity and construction of the economic and technical zone. Judging by the density of population in coastal cities such as Dandong, Dalian, Qinhuangdao, Yantai and Qingdao, the average is 1,700 per sq km, which is much lower than the rest of the other large coastal cities such as Shanghai (2,700 per sq km) or Guangzhou (2,300 per sq km).

II. The characteristics of Bohai Bay have determined the bay's importance in the economic and social development of our country, and they should have been used to best advantage. However, since the sixties, owing to the influence of factionalism, the original economic and social ties have been weakened and its superiority not fully utilized. For example, Tianjin, Dalian and Qingdao are superior in geographic location with high industrial technology standards, yet, for a long time, there were few arrangements about key items of construction in the three municipalities and there was a great gap in the supply of raw materials needed; each municipality had to resort to " large and complete", and according to national statistical classification, of the 164 different industries, there were 153 in Tianjin, 145 in Dalian and more than 100 in Qingdao. As a result, urban expansion became more and more serious a problem, there were many problems such as distribution of water, energy, and resources, construction of communications and transportation networks, and dealing with environmental pollution. Municipalities like Yingkou, Jinzhou, Tangshan, Qinhuangdao and Yantai embrace natural resources for tourism, with flourishing sea transportation, and they possess favorable conditions for the development of basic industry, tourism and ocean shipping. However, for a long time, due to the shortage of capital and technology, not only has this superiority not been fully developed, there still exist many problems in the distribution of industry in the municipalities and environmental protection, still less can we say they fully use their superiority. As the political, economic and cultural center of the country, Beijing should have played an important role in supporting the development of intellectual and technological resources; yet, owing to the one-sided emphasis on changing net-consumer municipalities into net-producing ones, the state poured huge investment into industry, which resulted in serious environmental pollution, and the intellectual superiority was not fully developed.

It is an important experience and teaching provided by history that the series of major local problems and contradictions in the Bohai Bay area can only be solved through comprehensive regional management. Since the Party's 3rd Plenum of the 11th CPC Central Committee, there has been restoration and progress in economic and technological coordination among the municipalities in the Bohai Bay; yet in regional economic development Bohai Bay obviously falls behind the Yangzi River delta, Pearl River delta or sourthern Fujian triangle. Today, when economic development is fast in our country and the world, the municipalities in the Bohai Bay area, besides exploiting their superiorities, should coordinate to make up each other's deficiences, to accelerate the realization of regional economic coordination, in order to accelerate the development of this area.

III. The demarcation of an economic zone and the establishment of its direction of development should meet the following objective requirements:

1. The extent of the economic zone and its direction of development must follow the overall plan of national economic development, to be an effective link of the organic part of the overall national strategy and of the chain of the whole economy.

2. Each member in the economic zone must give full play to its superiority, to create new economic results through coordination and division of labor.

3. Historical, cultural, social and economic links between different districts in the economic zone must be maintained and reinforced to form a closely coordinated system among the workers and peasants, urban and rural, different nationalities and geographic areas, to achieve obvious social interests.

4. The development of the economic zone must be favorable to environmental protection and ecological balance to create optimum ecological results.

Based on these points, this area, the Bohai Bay economic zone, through further reform and opening-up, should gradually be established. It should be an economic zone with its own characteristics, with the dozen large, medium and small coastal cities such as Dandong, Dalian, Yingkou, Panjin, Jinzhou, Tangshan, Qinhuangdao, Tianjin, Dongying, Yantai and Qingdao as the body; the three provinces and one municipality of Beijing, Liaoning, Hebei and Shandong as back; Manchuria, North China, Northwest and Central China as hinterland; the five economic and technological development districts of the five coastal cities as "windows" and the north part of China and the Asian Pacific region as the major stage of activities.

With the experience of the establishment of several other economic zones and combining the characteristics of this region, the following three points must be insisted upon in the establishment of the Bohai Bay economic zone: first, certain individual cities should not be used as the nucleus. Looking at the economic zones available in our country and the world, basically a certain large or medium city is used as the nucleus and other cities around it form a radial economic network. It is not so with the Bohai Bay economic zone; it is a colony composed of a dozen large, medium and small cities which form the nucleus of the economic zone, that is, the body of the Bohai Bay economic zone. Second, no clear demarcation lines are drawn. The provincial, municipal and city districts are administrative divisions in the scope of history and society. If the economic zone is drawn simply according to this administrative division, it is very unlikely to be scientific or reasonable. The present distribution of productivity has formed through the years. Under the circumstances that the economic divisions are not the same as administrative divisions, if administrative measures are taken first to adjust the present overall distribution, the interests of individual districts are bound to be difficult to coordinate, thus hindering the construction of the whole economic zone.

In the construction of the Bohai Bay economic zone, the following ten aspects must be considered:

1. Joint formulation of the strategy of development of the economic zone.
2. Deep development of economic coordination in the zone.
3. Establishment of a joint port organization and a communications and transportation network in the zone.
4. The establishment of a tourist area.
5. The establishment of an information exchange network.
6. Coordination of policies within the development zone.
7. Coordination between human resources and technology development.
8. Development of financial coordination.
9. Establishment of a Bohai Bay "common market."
10. Promotion of farming and animal husbandry around the sea.

In addition, there are many other aspects to tackle with great effort, such as how to formulate a unified plan about the 5,000 km coastline to promote comprehensive utilization and development, how to utilize the rich agricultural resources of the region to establish the commercial, industrial and agricultural economic structure with the characteristics of the north, or how to acquire a reasonable distribution of labor in offshore oil exploration, refinement and processing to establish our largest petroleum and ocean chemical engineering base.

12909/12948
CSO: 4008/2114

HAINAN DRAWS UP PLAN FOR CONSTRUCTION OF YANGPU PORT

HK240325 Guangzhou Guangdong Provincial Service in Mandarin 0300 GMT 24 Aug 86

[Excerpts] The comprehensive plan for development of Yangpu City, a strategic link in Hainan's economic development, has now been drawn up. Yangpu will be built into a modern open-style industrial port city, with the focus on the petrochemical industry. Its population will be 200,000 to 250,000.

From 16 to 18 August, the Hainan Regional Government convened a meeting to report on and assess development plans for Yangpu. The meeting decided to adopt the above scheme.

Yangpu, located in the northwest of Hainan, is a natural deep-water harbor. According to the development plan, the city's area will be not less than 50 square kilometers. The city will be divided into industrial, commercial, and cultural and education zones. The petrochemical industry will be the main industry. An oil refinery, synthetic ammonia plant, natural gas chemical plant, plate glass factory, and natural gas power plant will be built as backbone industrial enterprises.

Construction is planned to take 20 years and will be carried out in three stages. In the first stage of 5 years, an excellent investment environment will be created. In the second 5-year stage, the city will take initial shape. In the second third stage of 10 years, the comprehensive plan will be basically completed.

/12232
CSO: 4006/33

GUANGDONG PROVINCE ECONOMIC GROWTH RATE SOARS

OW250143 Beijing XINHUA in English 1836 GMT 24 Sep 86

[Text] Guangzhou, 24 Sep (XINHUA)--China's economic reforms are paying big dividends in Guangdong Province as the provincial economy there has grown this year at an astounding rate of 14 percent annually.

A large part of the province has been opened for foreign investment and in the first eight months of this year its industrial growth rate soared to 9.7 percent. China has designated Guangdong Province, which borders Hong Kong, as one of its main priorities for economic development.

He Xian, director of the provincial planning commission, said here today the province's growth rate is four percent higher than the nation's average for this year.

"Guangdong also recorded a 46 percent rise in exports during the same period under the government policy that encourages exports," he told a meeting of the standing committee of the provincial people's congress that opened here today.

A considerable portion of the increase came from textiles, light industrial goods, foodstuffs, leather and fur products and arts and crafts, he added.

Three of China's four special economic zones, where foreign investors enjoy tax cuts and other preferential treatment, are located in Guangdong. The provincial capital of Guangzhou and Zhanjiang are among the 14 coastal cities which exercise greater authority over foreign investment and trade. And Guangdong's Pearl River delta and Hainan Island have also been opened to foreign investment.

The increases in output have been achieved despite a lack of cooperation from mother nature. He said that four typhoons hit Guangdong earlier this year, causing enormous losses. "But life and production in the disaster areas is now back to normal," he told the meeting.

Moreover, the central and provincial governments have earmarked 41 million yuan (about 11 million U.S. dollars) to help local people repair and reinforce water conservation facilities and river and sea dikes.

The provincial authorities attending the five-day meeting will consider a number of important agenda items. They'll draft new regulations for companies in Guangdong's special economic zones which have contracts with overseas firms. They'll also decide how best to further implement the province's compulsory nine year education program for all school aged children.

/7358
CSO: 4020/11

ECONOMIC MANAGEMENT

ECONOMIC REFORMS IN LIAONING

Hong Kong WEN WEI PO in Chinese 15 Jul 86 p 12

[Article by Yang Dongyi [2799 2639 3300]: "A Silent Revolution"]
[Text] At the invitation of Liaoning Province's External Cultural Exchange Association, reporters from 12 Hong Kong and Macao newspapers and news agencies recently visited the four cities of Shenyang, Yingkou, Dalian, and Dandong in a 10-day "whirlwind tour."

Liaoning is a heavy industrial base whose importance can be illustrated with these figures. Its industrial fixed assets exceed 50 billion yuan, the highest in China. It is the largest producer in the nation of iron and steel (one quarter of the national total), refined oil (one third of China's refining capacity,) sodium carbonate, cement, paper, and paper products. Its gross value of industrial output topped the nation in 1985, reaching 65.9 billion yuan, as did its output value of heavy industry, at 43.1 billion yuan. Of the 23 major categories of heavy industrial products for which national statistics are kept, Liaoning is the largest producer in 6 and the second largest in 3.

In view of Liaoning's importance, Premier Zhao Ziyang pointed out when he inspected the province in July 1984, "No other places can yet replace long-established industrial bases like Liaoning and Shanghai in terms of their position and functions in the national economy."

During their short visit, the reporters discovered that some enterprises in this traditional industrial base are indeed "obsolete." Of the more than 19,000 enterprises, many are in their 30's and 40's. Outdated equipment and antiquated technology are everywhere. This phenomenon is not unique to old industrial bases in China. The Ruhr industrial region in Germany and the traditional industrial base in the New England states in the U.S. also went through the same process and experienced a painful time transforming their old enterprises.

Such is the stage Liaoning is in now. Even during the Sixth 5-Year Plan, this province went all out to modernize old enterprises to revive their vitality. To accelerate this process, the State Council approved in early 1985 the designation of Shenyang and Dalian as cities with province-level economic decision-making authority, giving them freedom of action to speed up the import of advanced technology and equipment from abroad to transform old enterprises. It is rare to have in one province two cities with province-level economic decision-making authority, which testifies to the importance the nation attaches to Liaoning. During the Seventh 5-Year Plan, the province has set aside as much as 18.7 billion yuan for the transformation of key large and medium-sized enterprises, up 34 percent over the Sixth 5-Year Plan, and exceeding the average national increase rate. Of the 18.7 billion yuan, central appropriations and capital raised by the province each make up half.

The transformation of old enterprises is a major reform facing Liaoning Province today.

Yet even more profound reforms are going on--silently. Their success or otherwise will not only affect Liaoning's future development, but in a certain way also hold the key to the take-off of China's national economy in the 1990's.

This "silent revolution," outwardly relaxed but intensive beneath the surface, covers many areas, including comprehensive structural reforms in large cities, financial reforms, the effective utilization of foreign capital by opened cities, decentralization of power to ports, and political reforms in medium-sized cities, etc. Essentially the reforms are aimed at sorting out the systems of power distribution and social distribution, breaking the strangle hold of rules and regulations, strengthening horizontal linkages, and accelerating the development of the national economy.

Of the four cities visited, Shenyang is a test site for comprehensive economic reforms and financial reforms, Yingkou is an opened city that uses foreign capital, Dalian serves as a laboratory in the decentralization of power to ports and in comprehensive reforms, while Dandong experiments with political reforms for medium-sized cities. Hence the visit provided the delegation of reporters with an opportunity to come into contact with the substance of reform.

12581
CSO:4006/1281

FINANCE AND BANKING

BANKRUPTCY LAW IN SHENYANG

Hong Kong WEN WEI PO in Chinese 16 Jul 86 p 12

[Article by Yang Dongyi [2799 2639 3300]: "Shenyang Implements Bankruptcy System to Promote Productivity"]

[Text] Shenyang is a major city in the northeast, with industrial fixed assets valued at 11 billion yuan gross, about one fifth of the entire province's total industrial fixed assets. Its machine industry is the third largest in the nation in terms of output value.

For years Chinese enterprises were exclusively preoccupied with the maximization of output value, ignoring costs and quality, let alone the marketability of their products. Thus the whole system is not geared to the demands of modern commerce. At a time when socialist commodity economic reforms are spreading across the nation, this irrational production structure must be dismantled. So in July 1984 Shenyang was selected by the State Council to be one of the test sites for comprehensive economic reforms in order to invigorate enterprises, stimulate major circulation channels, and establish an indirect management system.

As far as enterprise invigoration is concerned, Shenyang has carried out such trial reforms as the factory director responsibility system, individual or collective enterprise leasing system, enterprise stock ownership system, and bankruptcy system, with fairly good results so far. For example, the first batch of 30 enterprises to experiment with a factory director responsibility system boosted their output value and profits by 25 percent and 64.5 percent, respectively, in 1985, exceeding the municipality's average increase rates by a wide margin. As for the other reforms--individual or collective leasing system, stock ownership system, and bankruptcy system--they too have yielded notable results and will be tried out on a more extensive scale.

Of the above reforms, the enterprise bankruptcy law is particularly significant. All Chinese enterprises, whether state-owned or collectively owned, are state assets, so the question of bankruptcy does not arise. This means that enterprise leaders are not held accountable for mismanagement or recurrent losses. Mayor Wu Disheng [2976 6611 3932] pointed out,"The bankruptcy law aims at getting rid of this hopelessly rigid system and eliminating egalitarianism and the life tenure system." He said, "In the past, in spite of provisions for closure, suspension, merger, and switching to another line of business, enterprises still got poorer and poorer."

Wu Disheng pointed out that there are dozens of mismanaged enterprises in Shenyang. To contain the impact, however, only three grossly mismanaged enterprises were selected for the experiment. A year ago the municipal government issued a warning to them, hoping that they would shape up and pull themselves back from the brink of disaster. But one enterprise turned out to be beyond rescue and was declared bankrupt on 3 August.

Wu Disheng noted that Shenyang's bankruptcy law resembles its capitalist counterpart in form, but differs from it in essence. This is because the idea of putting up the "red sign" is to urge enterprises to work themselves out of their mess through self-transformation and outside help. People outside can help these enterprises regain their vitality by providing them with information and paid services in accordance with the principle of equal value.

As for post-bankruptcy arrangements, Wu Disheng noted that workers' wages will not drop drastically all at once but will be reduced slowly each month. About 6 months after bankruptcy, a worker will draw only about 60 percent of his original salary. Meanwhile, departments concerned will give them opportunities to learn a skill so that they can find jobs soon. As for the cadres of a bankrupt enterprise, they cannot hold another leadership position within 3 years.

Concerning the bankrupt enterprise's liabilities, it is up to the creditors and judicial agencies to work out together the distribution of the proceeds from the sale of assets. According to Wu Disheng, preliminary analysis indicates that the creditors' interests will not suffer significantly.

Wu Disheng noted that they have learned a number of things about the bankruptcy law. First, as the bankruptcy system is a controversial issue, publicity must be stepped up to mitigate its social repercussions. Second, experiments in bankruptcy law show that it has been a powerful impetus to administrative simplification and power decentralization. In the past, too many hands meddled in the affairs of an enterprise, but nobody was held responsible for it. Now after an enterprise is warned, enterprise leaders naturally demand more autonomy. The outside meddlers, for their part, now seek to distance themselves from the enterprise so that they will not be blamed.

Why were collective enterprises chosen as testing grounds for the bankruptcy law? Wu Disheng explained that collective enterprises are smaller and have more freedom than state-owned ones. However, publicly-owned enterprises are next in line for the experiment.

Wu Disheng admitted that the results of the bankruptcy system are a far cry from what they envisioned at the beginning. He also said that further progress in this area will not occur until many problems are worked out, for instance, the legal person status of an enterprise and the formulation of related legislation. But the implementation of a bankruptcy system will further liberate social productive forces and promote the development of a commodity economy.

12581
CSO: 4006/1281

RECTIFICATION OF 'SMALL CASH BOX' PROBLEM DISCUSSED

Beijing CAIZHENG YANJIU [FISCAL SCIENCE] in Chinese No 7, 28 Jul 86 pp 9-12

[Article by Li Xiaobo [2621 2556 3134]: "A Discussion of Several Problems Relating to Cleaning Up and Rectifying the 'Small Cash Box'"]

[Text] I. What Is the Small Cash Box?

The "small cash box" refers to public funds that are appropriated for local use and are not entered into the ledgers according to regulations in order to be used indiscriminately elsewhere.

The "small cash box" refers to state funding not included under state budgetary management, but is not considered to be extrabudgetary capital. The term "extrabudgetary funds" refers to funds that are outside of the state budget but included in state planning and management that are withdrawn and utilized by all regions, departments, and units according to state regulations, whereas the "small cash box" refers to unauthorized funding appropriated by some departments and units in violation of state regulations which are kept off account books for use in indiscriminate expenditures. "Small cash box" funds are managed neither as part of the state budget nor as part of the extrabudgetary funding system.

Current characteristics of "small cash box" funds include its piecemeal, hidden, nature and the lack of management and control.

A fairly large part of the "small cash box" funding originates in fragmentary revenues that should have been incorporated into the state budget, such as "other revenues," "operational revenues," enterprise "sales revenues," "miscellaneous revenues," and so on, that have been shifted outside the budget. Some other such funds are amassed from the masses by using techniques such as levying arbitrary fees and charges, making indiscriminate claims, and levying arbitrary fines. In addition, there are also some funds that are legitimate in origin but have not been entered into the ledger according to regulations allowing them to be placed outside the budget for arbitrary expenditures.

As for "small cash box" funds caretaking, in most cases the unit's accountant is avoided and the leadership appoints someone to do nothing but take charge of such funds. At the same time, there are "small cash boxes" scattered throughout the various departments and not a few sections, offices, and workshops of units. The reason these funds are referred to as a "small cash box" or "small treasury" is because they are not deposited in state banks and specialized banks representing the state, but are kept (in large sums) in boxes in unit offices. Some funds are also deposited in bank safes in the name of a collective or an individual.

Since most "small cash box" expenditures are illegal, activities relating to such funds are usually concealed and divorced from specialized and mass supervision. Management over these funds is quite disorganized and uncontrolled. Many current unhealthy tendencies have their origin in the "air raid shelters" they provide.

The main sources of "small cash box" funds are as follows:

(1) Intercepted procedure fees, sales commissions, public funds, interest, labor revenues, etc.; (2) the sale of old and discarded articles, packing materials, raw materials, and spare parts; (3) leftover specialized funds that should have been returned; (4) fraudulent claims for funding; (5) materials and retrieval of canceled losses due to bad debts; (6) operational revenue from the use of the state's vehicles, housing, and equipment; (7) price differentials from the commissioned purchase and sale of commodities; (8) consulting fees from firms that are not in the business of consulting and distribution fees from units that do not engage in distribution; (9) various unapproved fees, fines, and claims; (1) money and materials that are shifted to a collective enterprise without going through financial transferral procedures, and money and materials reallocated without compensation to collective enterprises; and (11) other revenues garnered by using state personnel, finances, and materials, and all stolen money not distributed and entered into the records according to regulations.

There are many categories of "small cash box" funds. I have listed the 11 types above to provide an overall understanding of the nature and content of this phenomenon.

II. Distinction Between "Small Cash Box" and "Small Public Chores"

The "small cash box" is illegal and cannot be used by any unit. "Small public chores" are permitted by the system and must be distinguished from the "small cash box" while that problem is being cleaned up.

The term "small public chores" had been used in the past, and was later replaced by "special institutional funds," "institutional funds," "enterprise funds," and "retained profits." It now appears necessary to restore the original term.

Before liberation in China, the revolutionary bases were isolated from each other and finances were tight and hard to manage. No unit could completely depend on the allocation of public funds to meet expenses. In order to ensure victory in battle and to alleviate the people's burden, all party and government agencies, the army, the schools, enterprises, and institutions initiated their own production activities and began the "small public chores." This played an important role at the time in ensuring supplies to the revolutionary bases.

After national liberation, the state's financial situation took a rapid turn for the better and the focus of the state's work shifted toward economic construction. At the time, due to the fact that the "small public chores" and institutional production often diminished the energies of the leadership cadres, and in particular, due to the exposure in the "three antis movement" and the "five antis" struggle of some cadres who had become mired in the greedy search after personal gain and pleasure using institutional production, even to the extent of curruption and graft, and also to the Liu Qingshan and Zhang Zishan cases that rocked China and abroad which were related to the "small public chores," the Central People's Government Administration Council decided in 1952 to hand over institutional production completely to the enterprise sector, and the cash and materials accumulated over the years by each unit (that is, the "small public chores," including production revenues, remaining outlays, interest on savings accounts, etc.) were all handed over to the appropriate government financial agencies. The "small public chore" expenditures were resolved by the planned budgetary allocation of the financial departments. The entrance onto the stage of highly centralized revenues and expenditures was crucial to the concentration of financial resources, guaranteeing focal projects, the implementation of a basic turn for the better in the economic situation, and the rectification of organizational workstyle.

However, after more than a year of practice, everyone came to feel that there were quite a few problems in the total takeover of the units' "small public chores." In a year unpredictable events can always occur, and the budget for the early part of the year cannot estimate everything perfectly, so when problems happen, the budget was supplemented, which was time-consuming and bothersome. Also this method had a detrimental effect on units that organized miscellaneous revenues and on their enthusiasm for running things prudently and thriftily. Therefore, after studying the problem, it was decided at the 1953 national financial conference that local and unit extrabudgetary funding would be initiated beginning in 1954. This was further clarified in the Ministry of Finance's "Regulation on Certain Specific Problems Relating to the 1954 Draft Budget": "The miscellaneous revenues of administrative agencies and institutional units at all levels, including those stemming from the lease and sale of means of transportation and furniture, the resale of old, discarded items not belonging to the scope of fixed assets, and commissioned labor shall all be independently managed by each institution and unit for use in meeting appropriate expenses and shall not be incorporated into any government budget." These miscellaneous extrabudgetary revenues earned and spent by each unit were called "special institutional funds."

The setting up of "special institutional funds" was in fact the restoration of the "small public chores," but its scope had been reduced and its usage limited to the supplementation of some miscellaneous institutional expenditures. Along with the expansion of enterprise autonomy in the last few years, the creation in some places of the "institutional funding" system was clearly a component of the extrabudgetary funding of administrative and institutional units. As for enterprise units, the "enterprise funding" system established in 1952 was later changed to "profit retention." This extrabudgetary funding of some enterprise units also replaced the "small public chores."

The "special institutional funds," "institutional funds," "enterprise funds," and "retained profits" are all reserve financial resources belonging to and managed by the individual unit as part of the extrabudgetary funding system, and can be referred to collectively as "small public chores." This term is relatively familiar and accurate, and its use can arouse a sense of responsibility and enthusiasm of units to do a good job of managing these funds.

Now that each unit has its "small public chores," why should the "small cash box" problem appear? There are two reasons for this. Subjectively, some units are plagued with departmentalism and always seek to take advantage of the state and squeeze as much as they can out of it. Some have used the opportunity afforded by the delegation of power and the economic-stimulation policy to indulge in this even more, especially under the influence of the "everything for money" thinking that is prevalent. In addition, from the perspective of financial management, some rules and regulations are inadequate while others cannot keep up with the changing times, which has led to the creation of many loopholes and gaps in the system and of more opportunities for engaging in "small cash box" activities.

After we have reviewed the historical evolution of the "small public chores" and have analyzed the reasons for the appearance of the "small cash box," we can distinguish between the two different types of extrabudgetary funding while cleaning up the "small cash box" problem, and may retain reserve financial resources that are legal and beneficial and eliminate the illegal, harmful squeezing of state funds.

III. "Small Cash Box" Is Not Small and Its Dangers Are Great

The "small cash box" is a form of illegal, hidden, unsupervised, uncontrolled funding which has a detrimental influence on financial accumulation, is harmful to state planning, and corrupts institutional workstyle and the ideology of the cadres.

First of all, as regards the macroeconomic control over the national economy, due to the numerous "small cash boxes" of some units and to the fact that they often are earmarked for capital construction projects outside the plan, in particular, to the building of residences and guest houses, the scope of capital construction has been expanded, creating one of the reasons for the lack of control over capital construction investment. In addition, a large part of the "small cash box" is used to issue bonuses and prizes and for the fraudulent purchase of high-quality consumer products under the state's control. This has led to the expansion of social consumption and is one of the reasons for the loss of control over consumption funds.

As regards enterprise management, some enterprises have, in order to set up a "small cash box," sold ... ? as discarded goods; some sell products at reduced prices to collectives under their jurisdiction; some enter into contracts with the outside at the expense of planned production goals; and some even establish their own "small cash box" by simply selling off products on the side. This is extremely harmful to the management of enterprise production and operations.

Second, as relates to the state's finances, the "small cash box" is one source behind the reduction of revenues, increases in expenditures, and the disruption of the financial system. The great majority of "small cash box" funds are taken from state financial revenues. Some come from the interception of sales and tax revenues, while others stem from the unauthorized expansion of retention norms of specialized funds. Some come from transforming enterprises within the budget to extrabudgetary enterprises and some from the shift of state funds to the collective. All this is harmful to the state's revenues. In financial expenditures, some units make fraudulent claims; some intercept all sorts of leftover specialized allocations; some marginal units fail to balance expenditures and revenues and, instead, set up separate books for revenues, turning them into a "small cash box; and some revenues from consulting, design, and labor services which should have been used to meet expenses are not used in this manner. All this expands financial expenditures. The "small cash box" makes a mockery of the state financial system and is destructive of financial discipline.

In addition, the harmful effect of the "small cash box" on ideological patterns cannot be underestimated. Since there are no accounting procedures, restrictions, or supervision involved in the "small cash box," which is controlled by only a few people, it is quite easy for problems to occur in relation to this money. Some units use it to give banquets and gifts, make useful contacts and friends, and go through the back door, which has led to a growth of unhealthy tendencies. Some use it to issue bonuses and prizes indiscriminately or divvy it up privately, which is in violation of the principle of each according to his labor. Other units transform the public good into personal benefit, and the resulting squandering, graft, and corruption have corrupted some cadres. Comrades say, "Many 'small cash boxes' make for great dangers," a comment which is right on the mark.

IV. How To Clean up and Rectify the "Small Cash Box"

This entails a great many things and is a job requiring a firm understanding of policy. We must rely on all levels of party and government leadership to mobilize all levels and raise people's consciousness. We must improve people's concepts of the state and of discipline, oppose cliquism and departmentalism, advocate building the country through hard work and thrift, and selflessly serve the state and oppose the waste of public funds and the transformation of public-sector funds and goods to private use.

This will also require much work in guidance. "Without blocking, there can be no flow" -- first of and foremost, loopholes must be plugged up. However, the purpose of "blocking" is to allow for "flowing"--funds must be able to circulate freely according to regulations. We must make the best use of funding to ensure the development of the national economy and the smooth implementation of the overall reform.

Specific measures involved in cleaning up and rectifying this problem are:

1. Make a careful distinction between state and collective funds and between budgeted and extrabudgetary funds. Funds that belong to the state must be managed as part of the statebudget and extrabudgetary funds according to the budget management and financial systems and may not be removed from the books for anyone to use at will. Budgeted revenues must be handed over to the state treasury and cannot be transformed into extrabudgetary funds. Even less can state funds be shifted to the collective. Collective enterprises that belong to state-run units must make careful distinctions regarding personnel, finances, and materials and may not utilize without compensation and indiscriminately transfer money or materials. "Small cash boxes" presently in existence that belong to the category of revenue that is part of the budget and that should be incorporated into enterprise sales revenues and be handed in must be retrieved and handed in to the higher financial authorities according to regulations. The management of extrabudgetary funds must be strengthened by transfer through extrabudgetary channels. These funds would still belong to the unit for utilization according to regulations. State revenues that have been intercepted, shifted, and encroached upon by the making of fraudulent claims and by illegal means should all be handed in. From now on, no unit shall be allowed to create "small cash boxes" with state budget and extrabudgetary funds.

2. Open the front door while sealing off the back door. The emergence of the "small cash box" for a period recently happened because of the lack of a source of funding for certain absolutely necessary expenditures (such as receiving visitors, subsidies, etc.), which led to the need to devise means to earn a little money. Therefore, we must block off the back door and open up the front door. This means devising means of meeting expenses and a system of norms for necessary operations, operational activities, and business-related entertainment and social interaction, and of allowing each unit to cover this from their own capital (the "small public chores" funds). Any institutional or administrative unit with its own source of revenue could be allowed to retain some funds in order to arouse their enthusiasm for finding new sources of revenue. Institutional funds could be set up from these retained funds and .... ? (in other words, "small public chores" of administrative and institutional units), to be used to cover some necessary miscellaneous expenses.

3. Create a complete, necessary system of regulations. During the course of implementing the open-door and economic-stimulation policies, quite a few new economic activities have emerged in society, which has inevitably led to the question of how to distribute funds. There are a few regulations for enterprises regarding this problem, but nothing exists for the administrative and institutional units. In particular, some scientific research, design, and school departments bring in revenues of various types over which there is no management, a situation that easily creates unhealthy tendencies. In the long run, this is also detrimental to the development of such units. Therefore each financial department should cooperate with the various supervisory

departments to devise and promulgate appropriate laws and regulations so that these funds can be guided into the proper channels and the reoccurrence of the "small cash box" can be prevented. In devising this system of funding distribution, the needs of all parties involved must be considered, and the supervisory departments must respect the legitimate function and authority of financial departments over the distribution of the national income. The financial departments must be concerned with the development needs of the institutional units, pay attention to social benefits, and prevent the development of the simple financial point of view.

4. Rectify the opening of bank accounts. All the state funds of a given unit, including budgeted and extrabudgetary funds must be placed in a bank account opened by the unit's accounting department in a centralized fashion according to the regulations of the Ministry of Finance and the People's Bank regarding the opening of bank accounts and regulations concerning the management of cash. The creation of "small cash boxes," "small treasuries," or the depositing of public funds in the account of a private individual should be forbidden. The .... ? of some units that have opened bank accounts and are privately handling large sums of money and public funds should be forced to cease these activities. Rectification must be carried out by financial and bank departments acting in concert.

The cleaning up and rectification of the "small cash box" must proceed under the united guidance of the party and government and requires close coordination among the relevant departments. The financial departments are duty-bound to take on the major tasks involved, while the auditing departments of banks must work with them closely. The various supervisory departments must take energetic action to devise methods of capital and property management for use within its own system, and supervise and inspect units under its jurisdiction. With the concerted efforts of all parties, we can surely clean up and rectify the "small cash box" problem, improve management of funds, maximize the social advantages of funds, and make new contributions to the four modernizations and the overall economic reform.

12221
CSO: 4006/1307

FINANCE AND BANKING

SHENYANG PLANS STOCK EXCHANGE

Hong Kong WEN WEI PO in Chinese 17 Jul 86 p 12

[Article by Yang Dongyi [2799 2639 3300]: "Shenyang Plans a Stock Exchange"]

[Text] China's financial system has been plagued and hemmed in by myriad rules and regulations for years. Because the flow of investments, consisting entirely of appropriations allocated by the government, has always been vertical, horizontal financing arrangements are few and far between. The result is a pattern of vertical distribution of credit and funds running from the central bank through specialized banks to the latter's grassroots organizations. Specialized banks function merely as a "housekeeper" and fail to exercise their true social function.

As China's economic system was further reformed in recent years, its planned economy of the past is gradually being replaced by a market-oriented commodity economy of the socialist mode. Under these circumstances, productive forces are greatly liberated and social demand for capital has multiplied, something that the rigid financial system has failed to adapt to. To facilitate major changes in the financial system in the future, five large cities have been selected as the sites of an experiment to gather experience. As one of the test sites, it is Shenyang's mission to be the laboratory of financial reforms in the northeast.

The experiment began in July 1985. Director Zhang Di [1728 1029] of the Office of the Restructuring of the Economic System of Shenyang revealed that this piece of reform consists of several components. First, putting an end to past centralization in the financial management system. In addition to the four existing specialized banks, other local financial organizations have been set up, such as the Shenyang International Trust and Investment Corporation and the Shenyang Trust and Investment Corporation. Moreover, 106 rural credit unions and 17 urban credit unions have been founded. Cooperative funds have also been set up in the countryside on a trial basis.

Second, encouraging horizontal capital circulation. Accordingly, discount services on promissory notes have been launched with four cities and interbank borrowing has been initiated with international and regional financial organizations. Enterprises have also been actively supported in their drive to develop compensation trade with 12 provinces and municipalities.

At the same time, with the permission of the People's Bank of China, enterprises and individuals in the five cities where the experiment was carried out were allowed to invest in other enterprises. Their investment may take the form of stocks or bonds, among other things. Last year Shenyang approved 68 enterprises to issue various kinds of stocks and bonds either socially or within the enterprises themselves in order to absorb idle social funds to finance enterprise transformation. Zhang Di said that 150 million yuan were raised this way last year and 120 million yuan in the first half of 1986. This year's total is expected to reach 200 million yuan.

Third, developing a multitude of credit instruments to accelerate capital circulation. Accounts with individuals and individual industrial and commercial households can be settled with checks. There will be experiments in the issue of certified checks and traveler's checks, and bill clearing services.

Fourth, gradually commercializing financial institutions, which used to function bureaucratically, by allowing them to operate independently and assume responsibility for their own profits and losses.

Zhang Di said that Shenyang proposes to establish a stock and bond exchange in a couple of months. The establishment of a secondary market will also be considered at the appropriate time.

If the experiment in financial reform succeeds in Shenyang, Changzhou, Guangzhou, Chongqing, and Wuhan, it is bound to further the restructuring of China's political and economic systems. With finance acting as a lever, enterprises cannot but improve the way they are run. Should that come to pass, the factory director responsibility system will no longer serve any purpose and enterprise leaders will certainly demand full power to manage their affairs independently. This will spark off a demand for a clean break between government and enterprises, prompting corresponding changes in the political system. The interactions between these developments will help unshackle China's political and economic systems.

12581
CSO: 4006/1281

DEVELOPMENT STRATEGY FOR NINGXIA METALLURGICAL INDUSTRY

Yinchuan NINGXIA RIBAO in Chinese 26 May 86 p 2

[Article by Hei Baili [7815 0130 3810]: "Close-Up Look at Ningxia Metallurgical Industry"]

[Text] Ningxia's metallurgical industry was born after the establishment of the autonomous region in 1938 and has grown rapidly since the mid-1960's when a host of metallurgical enterprises moved into the region from the interior. Today, Ningxia has 17 metallurgical enterprises flanking the energy base on both sides of Huanghe. The industry hires over 13,000 workers and almost 900 engineering and technical professionals. Among its leading products are steel, rolled steel, pig iron, metallurgical products, electrolytic aluminum, coke, carbon, and fire-resistant materials. With its output constituting 8.8 percent of the region's gross value of industrial output in 1985, the industry ranks among the most productive in the region.

As a raw material industry, the metallurgical industry plays a key role in regional economic development. Each year Ningxia produces far less iron and steel than it needs and has to depend on state allocations to offset part of the shortfall. In addition, it purchases some iron and steel from other places through cooperation. The region boasts a strong machinery processing capacity and the products of its major enterprises find a ready market at home and abroad. Owing to inadequate rolled steel supplies, however, these enterprises have to operate about 30 percent below capacity, and some local enterprises cannot even maintain normal production. In contrast, provinces, municipalities, and autonomous regions with a more plentiful supply of raw materials have developed more sophisticated metallurgical industries and are able to chalk up a faster rate of economic growth. Leading comrades in the central government have remarked that "every prefecture will come to life industrially if only it puts up a 100,000-ton steelworks." This certainly applies to Ningxia. Only when its metallurgical industry takes off can processing industries be assured of the availability of raw materials. And only then can economic development be sustainable. Judging from the strategy for national economic development in the Seventh 5-Year Plan and the 1990's, we should focus on building up central China as an energy and raw material base even as we accelerate development in the east. At the same time, there should be a vigorous drive to lay the groundwork for opening up the west.

As Ningxia is located where west China meets central China, building up its metallurgical industry is in line with the strategic plan above and has profound long-term significance.

Ningxia is well endowed to develop a metallurgical industry because of an abundance of energy and mineral resources strategically located. We have decided on the following strategy of economic development--aggressively pursue the local conversion and advanced processing of coal, build up the electric industry, and use it to develop industries that are heavy electricity consumers. This way we can bypass our weakness, namely, a limited ability to transport coal out of the region, exploit to the full our coal resources, and promote the development of industries heavily dependent on electricity, like metallurgy. Currently the region's total installed capacity of power generation stands at 600,000 kw, while the Dawukou Power Plant now under construction will have an installed capacity of 400,000 kw when it goes into full operation next year. Construction on the Daba Power Plant with an installed capacity of 2.4 million kw will begin in the Seventh 5-Year Plan.

Also in the works is a large-scale hydropower station on Huanghe at Heishanxia near the Gansu-Ningxia border, which will further boost the region's electric resources and enable it to expand the metallurgical industry, popularly known as the "electric tiger." Ningxia has other mineral resources essential to developing a metallurgical industry. It abounds in silicon and manganese ores; silicon ore deposits at the foot of Helanshan, with a high silicon dioxide content of 98 percent, amount to almost 200 million tons. Thus conditions are ideal for the development of ferrosilicon alloy and ferromanganese alloy. Iron ore deposits are more scattered and hence unsuited for extensive industrial exploitation. However, our mining policy--"exploit large deposits on a large scale and decontrol small mines"--has successfully mobilized the enthusiasm of the masses for mining, and the volume of regional iron ore output meets present production needs. Furthermore, the region has what it takes in terms of materials and technology to develop the metallurgical industry. Enterprises like the Qingtongxia Aluminum Plant, the Shizuishan Iron and Steelworks, and the Ningxia Smeltery make up the backbone of the metallurgical industry in Ningxia; they have a good grip on technology, produce a full range of products, and have highly skilled workers. Some of their products have won outstanding quality awards from the Ministry of Metallurgical Industry and the autonomous region, and their research projects have also received state recognition. They are a vital force in developing Ningxia's metallurgical industry.

On the basis of all-round, balanced economic development region-wide, we have set this goal for the metallurgical industry during the Seventh 5-Year Plan: quadruple output value. The first 3 years will be devoted to laying the groundwork--tapping the potential of existing enterprises, particularly the leading enterprises, modernizing and expanding them, and rounding out their physical facilities; improving product quality; and diversifying products The last 2 years will be spent on new projects to be undertaken when our resources permit. Our main tasks during the Seventh 5-Year Plan include the following:

-- use Shizuishan Iron and Steelworks as a base and develop joint iron and steel enterprises. Production by the two 5-ton electric furnaces should be resumed so that regional steel-smelting capacity will reach 50,000 tons annually. Add imports from other provinces and billets allocated by the state, and we can expect to produce more than 130,000 tons of rolled steel each year. Apart from reviving the 100-cubic meter blast furnace, we plan to modernize another 100-cubic meter furnace to produce more than 100,000 tons of pig iron annually. As for the manufacturing of metal products, we should have a dual focus. First, we should expand the output of sealed wire ropes, a flagship product. Second, we must begin making tire wire to complement the locally produced meridian tire. Not only can they be marketed locally, but they can also be exported to earn foreign exchange.

-- Develop the production of ferroalloy by expanding the two small ferroalloy plants and building the Ningxia Alloy Plant with an annual output of 50,000 tons. We aim to produce 80,000 tons annually.

-- complete Phase 1 of the expansion of Qingtongxia Aluminum Plant, increasing its annual output to 50,000 tons, and proceed on to Phase 2. Target: an annual output of 130,000 tons by 1990. At the same time, aluminum production should be developed.

-- The Ningxia Smeltery will use the tantalum powder and niobium produced by itself to make two electronic products, tantalum electrolytic condenser in conjuction with other enterprises in the region.

-- develop coke and charcoal products. The Xibei Coke Plant, with a projected annual capacity of 430,000 tons of coke, will be built jointly with sister provinces. Byproducts like coal tar will be processed as part of an effort to develop a coal chemical industry. The Shizuishan Coke Plant will be modernized to produce 30,000 tons of electrode each year. All these products can serve as raw materials for the region's metallurgical industry.

-- Beginning this year, there will be a systematic effort to mine gold and develop gold production.

The development of the metallurgical industry must base itself on technological progress. The key to achieving the above plans and goals lies with technological transformation, the adoption of advanced technology, strengthening of management, lowering of consumption, and effective comprehensive utilization, essentially that of gangue and aluminum oxide in fine coal ash. Although Ningxia has its strengths when it comes to the development of a metallurgical industry, it also has its share of disadvantages, such as fund shortages, technological weaknesses, a backward infrastructure, and scarce metal resources. The way out is to cooperate economically each and every way with other units, which will enable it to sidestep its weaknesses and exploit its advantages. Economic and technical cooperation is particularly imperative for enterprises in energy and raw materials industries with their long construction period, massive outlays, and stringent technical requirements. The conflict we have encountered in the course of economic development between what we need and what is possible has brought home to us at an early stage the significance of horizontal economic cooperation. Over the past few years, the regional party committee and people's government have given priority to the development of such cooperation and on its own initiative actively established and consolidated economic and technical cooperative relations with the northwest and sister provinces, municipalities, and autonomous regions in the northeast and central China. And the metallurgical industry figures prominently in the cooperative projects agreed upon. The 100-cubic meter iron-smelting blast furnace at Ningxia Iron and Steelworks, on which production resumed this year, and the two 34-cubic meter blast furnaces at Zhongwei, for instance, are exactly the fruit of cooperation with Zhejiang. The newly-built Xibei Coke Plant and the expansion of Qingtongxia Aluminum Plant and Shizuishan Carbon Plant are all cooperative projects with sister provinces, municipalities or the China National Nonferrous Metals Industrial Corporation under the Ministry of Metallurgical Industry. The Jiuquan Steelworks and Baotou Steelworks have been highly supportive of us by furnishing us with billets each year. Experience has convinced us of the immense vitality of horizontal economic cooperation. It spurs resource development, promotes the optimal use of capital and the reasonable exchange of technology and skilled personnel, encourages the rationalization of the economic structure and geographical distribution, and leads to a general improvement in economic well-being. In the future, we will work to broaden and deepen horizontal economic cooperation in accordance with the principles of "exploiting strengths, sidestepping weaknesses, diversification, mutual benefit, and joint development." Even as we promote regional cooperation, we must also take pains to develop horizontal cooperation between enterprises. Alternatively, we may pursue specialized cooperation both in and outside Ningxia, focusing on famous brand-name products, or pool our resources, such as capital, raw materials, physical plant, equipment, technology, and labor force. The encouraging thing is that the government will give a definite measure of special tax relief to enterprises and units which invest in energy and transportation industries and in "old liberated areas, minority areas, frontier areas and impoverished areas" to expedite economic development in those backward areas. This will benefit the development of horizontal economic cooperation by the metallurgical industry in Ningxia.

Domestic economic and technological cooperation should go hand in hand with a push for international economic and technological cooperation to make foreign capital and technology available to the region's metallurgical industry.

The newly built Ningxia Ferroalloy Plant was put together by the Ministry of Foreign Economic Relations and Trade, financed by foreign loans and equipped with imported machinery. In short, both forms of cooperation, domestic and international, have breathed new life into the industry.

It is the tradition of the vast numbers of workers in Ningxia's metallurgical industry to work arduously. Most metallurgical plants in the region are situated a long distance from cities in remote areas. For years the workers have overcome difficulties and worked long and hard, contributing to the development of the industry and the prosperity of the localities where the plants are located. In the process a crop of outstanding scientific and technical personnel has emerged, model workers who have been praised by the public. If the industry is to continue growing, its army of workers must make the most of their intelligence and expertise and keep up their spirit of struggle amid trying circumstances.

As reform and the open door policy become more thoroughgoing, we can expect the new vital force--Ningxia's metallurgical industry--to gradually come into its own during the Seventh 5-Year Plan and toward the end of the century, and contribute even more to the development of the great northwest and the rise of Ningxia.

12581
CSO: 4006/1160

MODERNIZATION IN THE AUTOMOBILE INDUSTRY

Hong Kong WEN WEI PO in Chinese 25 Jun 86 p 20

[Text] China's automobile industry has developed on its own over 20 basic new vehicles and modified vehicles and 200 special vehicles. At present it is capable of producing over 50 models of basic vehicles in the five major categories of trucks, cross-country vehicles, dump trucks, tractors, buses, and sedans, and more than 300 remodelled special vehicles in 10 major categories, incLuding vehicles for use in commerce, environmental protection, medicine and public health, agriculture, sideline production, fishery, forestry, and airport services.

Among new Chinese-made vehicles, there are such star performers as the "Jiefang" CA 141, a 5-ton truck made by the No 1 Auto Plant,; "Huanghe" JN 162, a 10-ton truck from the Jinan Auto Plant; and the "Leap Forward" NJ 131, a 3-ton truck manufactured by the Nanjing Auto Plant. All of them have been appraised by the government and will be put on the market successively this year and next, suggesting that "Jiefang," "Huanghe," and "Leap Forward," the three oldest, most popular and most widely used Chinese-made vehicles, have been totally modernized and with it the stagnation in the automobile industry over the past few decades will recede into history.

These new products have the following special features. First, they cover a full range of models. Among them are basic trucks, large and medium-sized buses, and various remodelled special vehicles, thus rounding out the composition of Chinese vehicles, which used to lack heavy-duty and light models. Second, marked improvements have been made in an array of technical and economic indicators and performance of the new generation of vehicles. Gasoline consumption per 100 ton kilometer has dropped substantially, while speed and weight utilization coefficient have gone up. The "Jiefang" CA 141, for instance, uses 26 percent less gasoline per 100 ton-kilometer than its older version and its average speed has increased 20 to 30 percent on the average. The new models are also far superior to their older counterparts in exterior, visibility, comfort, control, and handling. Third, these new vehicles stand out because of the breakthrough in the way they are built and designed. Large buses made in Wuhan and Wuxi are relatively modern rear-engine vehicles. The design of the newly-built and appraised line of basic trucks has taken into consideration such factors as product diversification, popularization and standardization so that in future they may be the prototypes of a family of vehicles with different tonnages and wheelbases and offer a choice between diesel engine and gasoline engine. They can also be the prototypes for various types of special vehicles.

The automobile industry in recent years has introduced a range of automobile technologies of the late 1970's and early 80's. Such imports have done much to expedite the modernization of the industry and technological improvement. Technologies on the construction of five complete lines of cars have been imported, including subcompacts from Isuzu, Fiat, and Renault. Other imports are American jeeps, small sedans from West Germany, and special mining vehicles. In addition, the nation has imported various kinds of assembly and spare-part technologies.

Through self-reliance, research and the import of various new car models and parts, China's automobile industry is headed for a surge of modernization in the next 2 years.

12581
CSO: 4006/1160

THREE CHANGES URGED IN INDUSTRIAL DEVELOPMENT STRATEGY

Beijing JINGJI RIBAO in Chinese 30 Jun 86 p 2

[Article by Zheng Xiaonong [4453 2556 6593]: "China Must Make Three Changes in Industrial Development in Seventh 5-Year Plan"]

[Text] As we enter the first spring under the Seventh 5-Year Plan, we can learn many important lessons by reviewing the Sixth 5-Year Plan, analyzing the stages of economic development together with their different characteristics and associated environmental changes, and looking ahead to the Seventh 5-Year Plan. This exercise will help us get a deeper understanding of the basic missions and development principles of the Seventh 5-Year Plan and steer us to the path of self-sustaining industrial development that emphasizes efficiency and production.

During the Sixth 5-Year Plan, China initiated a dual change--in its economic system model and economic development model. At the beginning of the dual change, industrial development displayed three characteristics. First, a notable increase in the scale and strength of the economy. There are two indicators of the overall industrial strength of a nation (region): gross output value and general technological level. Judging from last year's industrial added value (that is, net output value plus depreciation), the scale of our industry now ranks among the top five in the world, exceeded only by the US, Soviet Union, Japan and West Germany. Industrial production in every sector across the nation has been expanding rapidly, accompanied by a new trend toward the simultaneous development of rural and urban areas following the rural resurgence. However, the improvement in the overall technological standard has failed to match the growth in industrial scale. Second, a balance has been achieved between light and heavy industry. In the past, industrial expansion was mainly fueled by the demand for investments. During the Sixth 5-Year Plan, growth was stimulated by the demand for consumer goods as well as that for investments. By increasing the supplies of agricultural raw materials, reorienting heavy industry, importing raw materials, and boosting investments in light industry, the government has taken the first steps toward bringing heavy industry and light industry in line with each other. But given a still imperfect market system and distorted price system, the disparity between supply and demand in the product mix remains enormous and the revamping of the industrial structure is still a daunting task. Third, economic efficiency has gone up. As efforts were made to adjust the balance between light and heavy industry in the Sixth 5-Year Plan, enterprises increased the production of high-priced, profitable and popular products. As a result, profit taxes rose significantly, while both labor productivity and energy conservation rates climbed as much as 5 percent annually on the average. These three characteristics were consistent with the economic environment during the Sixth 5-Year Plan.

The economic environment of industrial development is in for extensive changes during the Seventh 5-Year Plan. To begin with, the state will make a mighty effort to bring about a basic equilibrium between total demand and total supply. After macroeconomic control was intensified in 1985, the demand explosion has been checked, the demand structure has been changing, and the market has shown the first signs of becoming partly a buyer's market, a process which is gathering momentum. Enterprises must take actions to adapt to the market environment. Secondly, we will systematically and gradually put an end to the underpricing of such means of production as energy and raw materials during the Seventh 5-Year Plan. As far as enterprises are concerned, this will mean more expensive inputs at a time when their ability to raise the prices of their products will be limited to a definite extent by the existence of a buyer's market. As a result, enterprises must adopt a variety of measures to enhance their capacity to absorb the rising costs of inputs and cannot merely pass them on to consumers. Third, Premier Zhao Ziyang points out in his report on the Seventh 5-Year Plan that by the end of the plan, the bulk of enterprises must be accountable for their own balance sheets and the days of "eating out of the state's common rice pot" will be a thing of the past. Changes in the economic environment require industrial development to enter a new stage; accordingly, we must make three changes. As far as industrial structure is concerned, there should be a redirection of focus, from adjusting the balance between light and heavy industry to systematic reform, including the revamping of the industrial structure and the improvement of the variety and quality of products. Turning to the scale of industry, we should concentrate more on technological advancement and less on quantitative growth. Old industrial bases along the coast must be technologically modernized. The applies to both the bases and the enterprises in them. Township and town enterprises too must raise their technological level through all manner of cooperation. As for economic efficiency, we should graduate from the superficial measures of efficiency to the more sophisticated ones. Instead of devoting ourselves exclusively to turning out more high-priced, profitable, and popular products, we must try to do better in terms of improving quality and cutting back on consumption. At the heart of these three changes is an improvement in macroeconomic and microeconomic benefits. To bring about these changes is a choice we must make in order to adapt ourselves to the objective economic environment of the Seventh 5-Year Plan, the only course open to industrial development. Only thus can we ease the deepening incompatibility between supply structure and demand structure, promote rapid industrial growth through reform, and pave the way for industrial modernization.

Specifically, the three changes may be achieved in the following ways, among others. First, combine the qualitative adjustment of fixed assets with their logical distribution. Besides stepping up investments in weak industries to boost their productive capacity, we should transfer some of the equipment and technology of the traditional industries in old industrial bases through strengthened horizontal cooperation, overhaul the structure of old bases, promote enterprise integration, expedite the reorganization and merging of existing enterprises, and achieve structural changes. Second, we must encourage the transfer and dissemination of applicable technology, expand technology import, and accelerate the technological progress of enterprises. Administrative barriers separating departments and localities must be further dismantled. The technological market must be developed. Technical services and the transfer of technology in return for royalties must be broadened. A multitude of unions combining scientific research with production must be set up. When they go in for technological modernization, enterprises should emphasize lowering raw material and energy consumption and increasing labor productivity. These efforts should be accompanied by others to raise management standards so that limited material resources can turn out maximum social output. Third, enterprises should take a new sophisticated approach to product development. They should continue to increase the output of popular products and do their best to improve design, packaging, variety, and specifications. But apart from these obvious and simple efforts, they should also take a more sophisticated tack to product development--improving quality, cutting costs, and upgrading performance, thereby fundamentally enhancing their products' domestic and international competitiveness. Only reform can remove the series of hurdles in the path of the three changes, which, in turn, will create a more hospitable environment for restructuring the economic system.

12581
CSO: 4006/1160

INDUSTRY

LATENT CRISIS LOOMS OVER INDUSTRIAL ENTERPRISES

Beijing LIAOWANG [OUTLOOK] in Chinese No 27, 7 Jul 86 p 21

[Article by Zhang Gaopeng [1728 7559 7720] and Yao Wenbin [1202 2429 1755]: "Shortage of Skilled Workers Poses Latent Threat to Industrial Enterprises"]

[Text] The high-precision, all-purpose cylindrical grinders turned out by Machine Tool Plant No 3 in Shanghai have enjoyed brisk sales at home and abroad. They have also made their appearance in the U.S. market. However, they have so far been produced in limited quantities. Why? It is because of the shortage of skilled large-taper-bearing grinders.

Although Machine Tool Plant No 3 in Shanghai had completed its planning for the trial production of butterfly-shaped grinding wheel gears a long time ago, trial production had to be put off for a year. Why? The shortage of skilled workers.

Although the Ma Ge grinding machine imported by the Steam Turbine Plant in Shanghai in the 1960's has been in use for 20 years, nobody at the plant dares to take it apart for overhauling. When the precision gear-bobbing machine imported by the Pengpu Machine Plant from the FRG developed trouble, foreigners had to be hired to make repairs. Needless to say, that was also because of the shortage of skilled workers.

Latent Crisis

The shortage of skilled workers has become an obstacle to the development of production and the achievement of scientific and technical progress in some of the industrial units in Shanghai and even in the entire nation.

According to an investigation conducted by the Enterprise Management Department of the Shanghai Machine and Electrical Industries Bureau of 116 key enterprises, there were at the end of last year 7,106 seventh- and eighth-grade technical workers (calculated according to their wages, including that for subgrade 7), or only 5.7 percent of the total. Their situation may basically be summarized as being high, low, and few. By high is meant their high age bracket, averaging 54 years with a considerable number approaching the retirement age; by low is meant their low cultural level with less than 20 percent having attained the special, or technical secondary, school standard; and by few is meant the small number of workers in the forefront of production with only 35 percent being engaged in frontline operations or in providing technical leadership. The effect which the high, low, and few situation has on production development and technical progress may be summed up as follows: First is the adverse effect on product quality; with no senior technicians to check on key working procedures, there is no assurance of technical soundness and no control over the quality of the products. Second is the effect on the trial production of new products; there are factories which have produced designs for, but are incapable of producing, new products. Third is the inability to maintain and to repair precision and advanced equipment. Although a number of factories in the mechanical and electrical system in Shanghai have retained a number of advanced workers among their contingent of machine repairers, their actual standards and limitations are such that they are incapable of dealing with new techniques and certain pieces of new equipment such as hydraulic-pressure, numerical-control, and minute mechanisms.

Where Problem Lies

Many factors contribute to the high, low, and few situation prevailing among skilled workers.

First, those in leadership positions in the enterprises lack an overall understanding of the essential factors relating to productive capability. At the mention of developing people of talent, they immediately think of increasing the number of technical workers and the knowledge of management personnel without regarding outstanding technicians as people of talent, let alone spending money for their training. By the end of last year, the hundreds of factories under the Shanghai Machine and Electrical Industries Bureau conducted a total of only 5 training classes for a total of only 142 senior technicians. During all these years, many leaders in the enterprises have emphasized the efficacy of modern equipment in the mistaken belief that, with the increase in the automation of technical equipment, the demand for technical operators would be correspondingly reduced. Instead of providing training for high-grade technicians, they would direct their efforts toward the importation of advanced equipment.

Second, the system for increasing the wages of workers is inequitable. So long as they refrain from making grievous errors, all workers have an equal opportunity to be promoted. That is why workers have shown no great desire to study and learn. Some senior technicians would prefer to serve as warehouse keepers and guards rather than work regular shifts as leaders of apprentices in the front line of production.

Third, the excessively elaborate division of labor is inimical to the development of advanced technicians.

During the 1950's and 1960's, the division of production work was less elaborate; thus workers had more opportunities to acquaint themselves with other types of work. Those in leadership positions also favored versatile workers who were experts in one field and good in many others. Now, the technical equipment of most of the enterprises is more advanced and the types of work more elaborately divided. Although that in a way represents progress, the fact that some workers are being assigned to permanent posts the moment they are employed by the factory also means that they are being confined to a small enclosure, thus making it difficult to upgrade the technical standard.

Suggested Measures

It is necessary to adopt feasible measures to establish within the shortest time a contingent of advanced technical workers.

-First, it is necessary to heighten the awareness of leadership cadres at various levels of the importance and urgency of establishing a contingent of advanced technicians who are in the prime of life. With the development of the four modernizations projects of construction, and in order to meet the demands for "introducing from abroad and cooperating with the units in the interior," the demand for advanced technicians to achieve scientific and technical progress and to increase the production of export products will continue to increase rather than decrease. That calls for a better quality of labor and a greater number of advanced technical workers possessed of modern knowledge and skills who are capable of checking up on product quality and developing new products. These advanced technicians, being important and talented workers in production operations, must be taken into consideration in the talent development program which the responsible persons in the enterprises must seek to implement during their term of office.

-It is necessary to create the necessary conditions for the development of advanced technical workers.

It is necessary to encourage the organization of special training classes for technicians who are experts in one field and good in many others. The rotation system for engaging in different types of work on a trial basis has been proposed by some comrades on the grounds that it would develop all-rounders and offer promotion opportunities to advanced technical workers. When importing techniques and purchasing equipment from abroad, the enterprises should select outstanding technicians for a period of training in foreign countries. Workers should also be assigned for a period of time to learn from advanced technical workers with unique skills so that they may acquire such skills.

-A policy of offering more pay should be adopted as an incentive to advanced technical workers. An evaluation system for senior technical workers should be established so that those who have achieved a certain grade may be paid commensurate wages. The less than equitable eight-grade system established 20 years ago should be amended. The establishment of such technical job categories as technician and technologist would encourage junior and middle-level technical workers to aspire for senior technician positions.

-It is necessary to direct serious efforts to achieve coordination in propaganda work. Publicity should be given to the achievements and contributions of senior technicians with ample experience in their operations and those of skilled craftsmen.

9621
CSO: 4006/1306

EXPORT OF LIGHT INDUSTRY PRODUCTS SHOWS SIZABLE INCREASE

Beijing ZHONGGUO QINGGONGYE BAO in Chinese 31 Jul 86 p 1

[Article by [?] Chuban [.. ? 0443 0584]: "Export of Light Industry Products Shows Sizable Increase During the First Half of 1986"]

[Text] The export value of our light industry products that have been delivered came to 8.07 billion yuan during the first half of the year, showing an increase of 57 percent compared to the same period last year. Among those provinces and cities registering the highest rate of increase are the No 1 Light Industry Bureau of Yunnan Province with 408 percent, the No 1 Light Industry Bureau of Shenyang with 353 percent, the No 1 Light Industry Bureau of Wuhan with 252 percent, and the No 1 Light Industry Bureau of Harbin with 242 percent. Among those showing increases of over 100 percent are the No 1 Light Industry Bureau of Heilongjiang, the No 1 Light Industry Bureau of Hunan, the No 2 Light Industry Bureau of Hubei, the No 1 Light Industry Bureau of the Guangxi Zhuang Autonomous Region, the No 2 Light Industry Bureau of Wuhan, the No 1 Light Industry Bureau of Liaoning, and the No 2 Light Industry Bureau of the Ningxia Hui Autonomous Region. Among those which have registered increases of over 30 percent are 43 No 1 and No 2 light industry bureaus and head companies in the provinces and cities, comprising 57.3 percent of all the units covered by the statistics. Among those units are the No 2 Light Industry Bureau of Guangdong with an increase of 81.9 percent, the No 2 Light Industry Bureau of Zhejiang with an increase of 73 percent, the No 1 Light Industry Bureau of Beijing with an increase of 59 percent, the No 1 Light Industry Bureau of Tianjin with an increase of 57 percent, the No 2 Light Industry Bureau of Fujian with an increase of 54 percent, the No 2 Light Industry Bureau of Hebei with an increase of 41 percent, the No 2 Light Industry Bureau of Shandong with an increase of 39 percent, the No 2 Light Industry Bureau of Beijing with an increase of 39 percent, the No 1 Light Industry Bureau of Guangdong with an increase of 38 percent, and the No 1 Light Industry Bureau of Shanghai with an increase of 37 percent. Only three bureaus have shown a decrease compared to the same period last year.

Among the categories of export products which have shown sizable increases compared to the same period last year are watches with an increase of 573 percent, drawnwork and embroidery with an increase of 146 percent, bicycles with an increase of 62 percent, and sewing machines with an increase of 35 percent. Both drawnwork and embroidery, following a 4-year slide, and fur coats, which suffered a 2-year slump, have rebounded. Considerable increases have also been registered by dresses, metal implements, thermos bottles, light bulbs, soap, and batteries compared to the same period last year.

With the increase in the export of light industry products during the first half of the year, the export of light industry machinery and electrical products also showed a considerable increase. For instance, while 600,000 watches were expected to be exported by Shanghai according to the quota for the year, 1.7 million were delivered during the first half of the year, and 3.3 million are expected to be exported for the entire year. While 1 million bicycles were expected to be exported by Shanghai according to the quota for the year, 569,500 have been exported during the first half of the year and 1.4 million are expected to be exported during the entire year.

The increase in the export of light industry products may first be attributed to the emphasis which has been placed by those in leadership positions at various levels in the central government and the localities on increasing the amount of exports, the drawing up of a series of policies to promote exports, and the offering of reasonable economic benefits to the enterprises. At the same time, many party and administrative leaders have taken upon themselves the responsibility of coordinating relations among the various parties to resolve their problems.

Since the beginning of the year, new developments have taken place in the unification of wages. Multilevel, multichannel, multitrading port, multipattern, and multimarket methods have been adopted to increase the export of light industry products, Aside from fully exploiting the role of foreign trade operations as a main channel for increasing exports, the importance of such means for earning foreign exchange as getting the enterprises within the light industry system to engage in export operations, in export operations of joint enterprises, and in the development of import and export operations of "the three forms of import processing and compensation trade" should not be overlooked.

9621
CSO: 4006/1306

INDUSTRY

SHENYANG'S TIEXI ZONE PLANS RENEWAL PROGRAM

HK230531 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 10 Sep 86 p 2

[Article by Liu Shanhong]

[Text] It is widely acknowledged that Shenyang, a historic city in Northeast, is China's most well-developed and diversified industrial base. Yet very few know Tiexi industrial zone, the nucleus of Shenyang's industry.

Tiexi, one of five urban districts, lies in the east of Shenyang, covering 39.3 square kilometers, among which 12 are used for industry.

According to 1984 statistics, out of 151 large and medium-sized enterprises in Shenyang, some are [as published] 79 in the Tiexi industrial zone. Out of the State's 156 key projects in its first five-year plan, six were in Shenyang with three in Tiexi.

In 1985 the total industrial output of Tiexi industrial zone soared to more than six billion yuan, 39 percent of that for the whole city.

In terms of fixed assets, annual industrial output and the profits and taxes handed over to the State, the large and medium enterprises in Tiexi, account for half those of all Shenyang.

Since 1949, Tiexi has built more than 140 plants in a variety of sectors, such as metallurgy, chemical engineering, pharmaceuticals, building materials, textiles and food, with the engineering industry as a mainstay.

A total of 56 scientific research facilities and institutions have been set up in Tiexi, producing many new products.

Now, classified by production capacity and economic benefit, over 20 industries in the Tiexi area have been ranked first in their spheres nationally.

Products from this area have supplied a great variety of key construction projects, such as the Gezhouba and Longyang hydropower stations, Yuanbaoshan thermal power plant, the 500,000-volt transmission project between Shanxi and Beijing, the railway electrification project between Beijing and Qinhuangdao, eight major coal mines and other key projects.

The area has convenient transport links and wide roads with the Harbin-Dalian highway running through its centre which links it directly to Dalian sea port. Within the area, 133 industries have special rail lines to ship products from factories directly to the users.

The Shenyang Thermal Power Plant provides 19 big enterprises and 250,000 residents with centralized steam heating system.

Tiexi is rich in natural resources, with numerous coal mines and the Liaohe oil field, which provides natural gas to the district.

In 1931 Shenyang came under Japanese occupation. The industrial area was developed during the 1930s, but this meant that by 1949 much of its equipment was obsolete and a lack of planning control over its development left it poorly laid-out and limited its opportunities for development.

Now it is starting a programme of comprehensive renewal, aiming to boost old enterprises, introduce new industries and to improve the social and physical environment of the area.

The renewal will have two stages--the first up to 1990; the second up to 2000.

In industry, it will focus on about a dozen industries, including electrical engineering, machine tools, heavy machinery, general machinery, motor vehicles, agricultural machines, textiles and food.

It will involve renewal of about 15 major enterprises, including Shenyang Cable Factory, Shenyang Transformer Factory, Shenyang High-Voltage Switch Factory, Shenyang No. 1 Machine Tool Plant, Shenyang Chemical Engineering Plant, the Northeast Pharmaceutical Factory, Shenyang Gourmet Powder Factory and Shenyang Beer Plant.

Five technology and process demonstration centres for casting, forging, moulding, heat treatment and electroplating will be set up, as will testing centres for electrical equipment.

There will be a special high-technology park close to Tiexi for newly developed industries.

In the residential southern part of Tiexi, old residential areas with poor facilities, such as the old houses built in 1930s, will be replaced with new residential areas with complete domestic services.

It is also vital to reconstruct and expand commercial areas, and technical and cultural areas; to provide workers' educational and medical centres; and to improve transport, including widening and opening 14 main roads and building six multi-way bridges at intersections.

Controlling about 20 pollution sources, treating wastes and improving the environment will also be given priority.

Central government has already backed several key construction projects for the area, including an international airport, a new railway station, a reservoir, Shen Hai thermal power plant, a postal centre, a telephone project and a very high voltage transmission line.

During the Spring Festival in 1985, Premier Zhao Ziyang came to Shenyang and inspected the industrial zone. The State Council: has approved a report by the State Planning Commission saying that Tiexi industrial zone should be a national project for regional renewal, and enjoy the privilege of financial support and tax exemption policy.

/7358
CSO: 4020/11

INDUSTRY

BRIEFS

SICHUAN INDUSTRY, COMMUNICATIONS--Despite high temperatures and a shortage of electricity supply, the workers on the industry and communications front of Sichuan Province scored good achievements in industrial production and communications in July. The gross industrial output value in July this year was 6.6 percent more than in the same period last year. Except for four cities, prefectures, and autonomous prefectures, including Luzhou, Mianyang, Aba, and Garze, whose gross industrial output value dropped, the gross industrial output value of the other cities, prefectures, and autonomous prefectures increased to different degrees. Compared with the same period last year, the output value of machinery up to July this year increased by 13 percent, of metallurgical industry by 12.9 percent, of chemical industry by 14 percent, of textile industry by 22.65 percent, of natural gas by 8 percent, and the volume of railroad transport by 9 percent. Of the 53 main products of the light industry, the output value of 38 increased and some increased by 20 to 80 percent. [Summary] [Chengdu Sichuan Provincial Service in Mandarin 2200 GMT 26 Aug 86 HK] /12232

CSO: 4006/33

SMALL-SCALE ENTERPRISES

BOOM IN ANHUI TOWNSHIP ENTERPRISES

Beijing NONGMIN RIBAO in Chinese 12 May 86 p 1

[Article by Wang Yuzhao [3769 6735 2507]: "Peasant Households Are the Driving Force in the Development of Township and Town Enterprises"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, the vast countryside has scored a major victory in the first stage of reform centered on the implementation of the contracted responsibility system. After meeting their basic daily needs, most peasants have rapidly proceeded to the second stage of reform characterized by the transition from a self-sufficient or semi-self-sufficient economy to large-scale commodity production. In the course of this significant change, we zeroed in on the development of township and town enterprises as the strategic thrust of the vitalization of the rural economy, without, however, relaxing grain production in the least. The results have been remarkably successful. In 1985, the gross output value of township and town enterprises across the province reached 8.52 billion yuan, up 81.2 percent over 1984. Township and town enterprises have boosted output value, profits and government revenues simultaneously and reshaped the structure of the rural economy. Their output value accounted for 36 percent of gross rural social output value, compared with 21 percent in 1984, or 201 yuan per capita. The development of township and town enterprises has also spurred the development of small towns and rural public welfare. Experience has convinced us that while China's rural areas rest on agriculture, they cannot prosper without industry.

A basic reason for the breakthrough township and town enterprises in Anhui have achieved in the last couple of years is our firm commitment to mass involvement.

Compared with other provinces and municipalities, Anhui is a latecomer to the game of township enterprises. Ours was a fledgling industry, with a shaky economic base and low production and managerial standards. How could its development be accelerated? All of us in Anhui, from top to bottom, searched far and wide for an answer. We sent people to developed areas everywhere to learn from their experience. We did learn many lessons from them, but none was more crucial than that they all took local realities at the time as their point of departure. It would be counterproductive if we, in our eagerness for results, mechanically copy a method here, a method there.

So we reviewed the situation in the province when it entered the first stage of rural reform. As the mass of peasants then welcomed the family contracting system, we complied with popular wishes and supported contracting, with excellent results. After the rural areas embarked on the second stage of reform, we firmly stood by our basic lesson, went out of our way to take realities as our point of departure and made sure that as many people got the message as possible.

The Fuyang area is one of the most impoverished areas in the province. In recent years, vast numbers of peasants have made gratifying progress in their search for a way to enrich themselves. For starters, they revived the production of traditional local products and applied themselves to commodity production. With a handful of households as trailblazers, entire villages and townships before long became areas of specialized production with specialized markets. The Fuyang prefectural party committee and administration office lost no time in endorsing this path to success charted by the masses themselves and, making the best use of the situation, put the stress in the development of township and town enterprises on the "three specializations" (specialized households, specialized villages and specialized business areas) and the "two factories" (household and joint household factories). As a result, all township and town enterprises in the area, large and small, developed rapidly. Their gross output value, a mere 197 million yuan in 1983, soared to 970 million yuan in 1984, an increase of more than 400 percent in just 1 year. The provincial party committee and government took the Fuyang experience very seriously and decided to popularize it throughout Anhui. They made it clear that "the source of strength of township and town enterprises lies with the tens of thousands of households" and emphasized the "district, township, town, village, joint household and household" as the "six wheels" whose simultaneous motion, particularly that of the latter two, is critical to driving the rural economy. In addition, they despatched responsible comrades from various prefectures and municipalities to Fuyang for on-site inspection so that they could exchange views as they studied the area and achieve a measure of consensus. The purpose was to spread the Fuyang experience throughout the province within a short time. In 1985, enterprises operated by households and joint households increased to 838,000, compared with 372,000 in 1984, up 125 percent. Their output value rose to 3.97 billion yuan, an increase of 175 percent over 1984, and accounted for 44.3 percent of the gross output value of all township and town enterprises, up from 31 percent in 1984. Fuyang provides a shining example for the rest of the province.

Why has the Fuyang experience borne fruit so rapidly all over Anhui? Basically because it is adaptable to most places in the province where the economic base is relatively weak, capital is scarce, technology is backward, qualified personnel are few and far between, and production and managerial standards are low. People find it acceptable because they see in it their potential for developing township and town enterprises and the course they can follow.

Why has the idea of setting up household and joint household enterprises been so popular among vast numbers of peasant households and joint households? For the following reasons:

1. It is easy to raise the little amount of capital a household or joint household enterprise requires. Some can be put together with less than a hundred yuan, several hundred yuan or a thousand yuan, which is a good way to make full use of the idle funds in peasants' hands. Nylon rope processing, for instance, is today a 40 million yuan business in Caimao district in Taihuo County. Had the peasants built a factory with an annual output value of 40 million yuan, it would have cost them 15 million yuan at least. But instead they chose the mass involvement approach, with equally good results. The peasants made rope-spinning wheels out of and set up shop in front or at the back of their houses or beside a ditch. It took the first household just a little over 20 yuan to go into business. This cottage industry caught on like wildfire, and the three pioneering households were soon joined by more than 4,000 households. What initially began in just one village in no time turned more than 130 villages into a cluster of specialized production areas and mini-economic zones, processing 6,000 tons of annually. Before long they graduated into a nylon rope production base geared to a nationwide market.

2. They can be put into production within a short time. Most household and joint household enterprises are small businesses. The peasants are very careful to pick projects that deliver results quickly, often as short as 7 or 8 days, several weeks, at most 3 months. At Dingwafang village in Tangling township, Hao County, 73 peasants from the Zhanghuaiquan agricultural-industrial-commercial union pooled their funds and put up a plant with a daily output of 100,000 jins of noodles within 104 days. Seven state-run grain supply centers in the county town now order goods from this joint household enterprise.

3. They make full use of surplus rural labor. Last year township and town enterprises across Anhui created jobs for 3.31 million redundant workers, of whom 2 million, or 60 percent, found work in household and joint household enterprises. In Jianshan County, one of the major producers of mats in the province, 11,500 family factories have come into existence with a labor force of over 30,000 and an annual output of 3 million mats.

4. They make full use of local resources. Historically, such areas as Dayang, Shibali, and Shijiuli in outside Hao County used to grow herbal medicines. In the past, however, there was no attempt to process and fully utilize them. Now as many as a thousand peasant households and residents from the towns have set up medicine-processing plants, joining forces with six medicine-growing areas nearly. With an annual processing capacity exceeding 20 million jins valued at almost 100 million yuan, they have gained access to the market for processed medicines in more than 20 provinces.

5. Household and joint household enterprises are low-risk ventures. Peasants share the desire to become rich, but most of them are also leery of the risks involved. Household and joint household enterprises appeal to the peasants because their scale of production, capital requirements, and products are all on a small manageable scale. They can be put into production quickly, and if a peasant wants to shift gears midway, he can do so equally quickly. Household and joint household enterprises fill a niche in the market others

have ignored. They are versatile in that they can respond promptly to the whims of the market. If their product turns out to have a steady market following, the peasants can keep on producing it. Otherwise they can switch to another line of business readily. This flexibility relieves the peasants of their anxiety: They can afford to make a mistake or two without incurring crippling losses.

In short, the boom in household and joint household enterprises have breathed new life into the development of township and town enterprises. They will remain the centerpiece of our enterprise development strategy for a long time to come. As far as the development of township and town enterprises in Anhui is concerned, a clear picture has emerged in which rural major enterprises are the leading force with tens of thousands of households supplying the momentum. The driving force is the six wheels--district, township, town, village, joint household and household--in simultaneous motion.

12581
CSO: 4006/1158

SMALL-SCALE ENTERPRISES

JIANGXI PLANS TO SPEED UP TOWNSHIP ENTERPRISE DEVELOPMENT

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 9 Jul 86 p 1

[By correspondent Zhu Bei [2612 5563]: "Applying Special Policies to Specific Conditions, Jiangxi Province Decided to Accelerate Development of Township And Town Enterprises By Supporting Them With Regard To Funds, Taxation, And Raw and Auxiliary Materials. Leadership of Town and Township Enterprises Will Be Strengthened And Support Services Will be Improved On"]

[Text] The Jiangxi Provincial People's Government recently called a work conference on township and town enterprises and decided to accelerate the development of township and town enterprises throughout the province by implementing special policies and measures, with due consideration for the actual conditions in Jiangxi.

Prior to the conference, Tian Jiyun, vice premier of the State Council, had inspected Jiangxi's township and town enterprises and pointed out: Township and town enterprises have only recently been started in Jiangxi Province, and the government must definitely support them most energetically. It is in this spirit that the provincial government and the relevant departments analyzed the condition of township and town enterprises in the province in concrete detail and realized that although township and town enterprises were greatly developed throughout the province during last year, their gross income having reached 5.16 billion yuan, the township and town enterprises in the old liberated areas and impoverished regions, accounting for two-thirds in area and half of the population of the province, are extremely backward and have even not at all been set up in a considerable portion of these areas. A conscientious study was subsequently made of the experiences made in recent years in fraternal provinces and municipalities in the matter of developing township and town enterprises and of the new general and specific policies adopted there. To catch up as rapidly as possible with developments in the country as a whole and in the East China region, the provincial people's government decided to adopt a policy of relaxing past restrictions and of invigorating various aspects, particularly the supply of capital funds, materials, and as regards taxation.

1. Financial Assistance. According to the principle of "self-reliance to be primary, state-support to be subsidiary," main reliance must be placed on joint operations with capital raised by the masses, reliance on accumulations

by the enterprises themselves, while financial departments, banks, and credit institutions at all levels shall simultaneously render energetic support. In future, all local organs shall every year allot a part of the increased tax revenue turned over by township and town enterprises to the use of supporting township and town enterprises. A portion of the funds granted by the state as assistance to the old revolutionary areas, to the economically underdeveloped remote mountainous areas, and to impoverished regions shall be used directly to develop township and town enterprises. All levels of the Agricultural Bank shall according to actual conditions relax restrictions on cash drawings by township and town enterprises, or by enterprises operated by one or jointly by several households.

Directing efforts particularly toward township and town enterprises, this year's loans by the Jiangxi Agricultural Bank to the amount of 87 million yuan and special loans granted by the central authorities to the old liberated areas and to assist impoverished regions were mainly used for the benefit of 401 specially impoverished villages throughout the province to develop such trades as the processing of agricultural and sideline products, opening of mines, small-scale hydroelectric plants, building materials, and transportation. The provincial agricultural bank, furthermore, instructed the credit cooperatives to grant loans amounting to 80 million yuan for the development of township enterprises. The provincial agricultural bank, moreover, placed bonds to the amount of 25 million yuan with rural enterprises of good profitability. This year the provincial agricultural bank is providing 50 percent more capital in support of township and town enterprises than during the corresponding period last year.

2. Taxation shall be carried out on the principle of payment of full tax amount first, with any reclamations to be considered later. Excepting items explicitly designated by the state as never to be exempted from taxation, all industrial products newly manufactured and marketed by township and town enterprises shall be exempt from product and added-value tax for 1 year from the date of regular production.

As from this year, township and town enterprises shall be exempted from tax on rewards and bonuses.

Charges to the comprehensive depreciation fund for fixed assets of township enterprises shall from now on be made by all those that did not do so in the past. Enterprises of good profitability may have this charge raised by 2 to 3 percent over the assessment of the past. Funds for large-scale overhauls may be allocated at half the depreciation rate. Charges to the depreciation fund must be deposited in the name of a special account; all such funds must be used for renovations and improvement of equipment and must not be diverted to other uses. Charges to the enterprise welfare fund may be made at the rate of 1.5 percent of the total amount of salaries and wages. Contributions to a planned overall personnel retirement fund may be allocated at 15 to 25 percent of the total amount of salaries and wages depending on the varying conditions in the enterprises. Expenditures of a social nature may be charged at 10 percent of profits before taxes. All technical loans may be repaid out of newly increased profits before taxes.

3. In matters concerning the supply of energy, raw and semifinished materials, energetic support must be rendered by the planning, materials, and other relevant business departments, first, by opening individual accounts, and second, by including items in the plans, where possible, and if not possible by assisting in arranging for unplanned supplies. Priority consideration shall be given to the supply of raw and semifinished materials, and fuel, needed for the manufacture of high-grade national, departmental, or provincial products that are exported and earn foreign exchange.

To support township and town enterprises, the Materials Bureau of Jiangxi Province recently arranged, in addition to the 17 million tons of shipbreaking steel plates available according to plan figures, in an ingenious way for an extra allocation of 3,000 tons of steel materials, increasing the target figure for steel materials by 5,700 tons above the figure of last year.

9808
CSO: 4006/1220

SMALL-SCALE ENTERPRISES

ON HUBEI'S TOWNSHIP ENTERPRISES

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 24 Jul 86 p 3

[Unattributed report: "Former Exports of Raw Materials Now Beccme Exports of Finished and Semifinished Products; Hubei's Township Enterprises Rapidly Develop Export Commodities; 5-Year Exports Amount to 300 Million Yuan"]

[Text] Wuhan, 22 Jul, XINHUA SHE--HUBEI RIBAO reports that the township and town enterprises of Hubei Province have exerted great efforts in producing of export commodities. Some products are already being exported to 39 countries and territories. The enterprises are building up an important work force precisely for the purpose of achieving more exports and of earning foreign exchange for their province.

Incomplete statistics show that Hubei's township and town enterprises supplied more than 300 million yuan worth of export commodities, of which 94,380,000 yuan worth of commodities were supplied in 1985 alone.

Over the past few years, Hubei's township and town enterprises have produced export commodities relatively rapidly. The "ba" [1056] lacquer from Lichuan, the "Gold Thread" tung oil from Laifeng, the black edible tree fungus from Fangxian, the shallots from Ezhou, and the canned Chinese chestnuts from Luotian, all enjoy a fairly high reputation on the international market. Building materials such as marble, granite, and barite are being exported ever more in the form of semifinished or finished products as opposed to exports of the raw material which was the norm in the past. The threshers, bearings, metal utensils, and other machinery and electrical products manufactured by the township and town enterprises are now also beginning to show promise in the international market.

Many township and town enterprises have become key export commodity manufacturers among the provincial township and town enterprises. The commodities exported by the folding fan and chopsticks factory of Yangloudong in Puqi County has developed over 200 standard items. They transacted 1.2 million yuan of trade with foreign businessmen at this year's Guangzhou Spring Fair. The precious stone and bamboo garment factory in Tongshan County weaves ladies' mesh vests from fine bamboo strips in combination with precious stones and chains of pearls into glittering and translucent items of unique style. The woven articles manufactured by township enterprises from silk, straw, bamboo, coir, rattan, and willow branches, as well as their carvings from jade, stone, bamboo, shells, tree roots, and wood, are each of a distinctive style, and come in a great variety of shapes and styles, much welcomed and rated highly on the international market.

9808
CSO: 4006/1227

SMALL-SCALE ENTERPRISES

TOWNSHIP AND TOWN ENTERPRISES IN ASCENDANCY

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 20 Aug 86 p 1

[Article by He Kang [0149 1660]: "Characteristics of Township and Town Enterprises"]

[Text] Township and town enterprises were gradually developed by Chinese peasants on the basis of rural handicraft industries and the processing of primary agricultural products in the countryside. They include enterprises run by villages, cooperative enterprises jointly operated by some peasants, other forms of cooperative enterprises, and individual enterprises. Since the 3d Plenum of the 11th CPC Central Committee resolved in 1978 that rural China develop agriculture, forestry, animal husbandry, and sideline production comprehensively, and tackle agriculture, industry, and commerce together, township and town enterprises have been springing up like mushrooms all over the countryside. They have become a key component of China's national economy and represent the only way to vitalize the rural economy and enrich the vast numbers of peasants. In 1985, collective and individual township and town enterprises numbered 12.22 million in all, of which 850,000 were at the township and village levels, hiring a total of 69.8 million people, or 19 percent of the total rural labor force. They had 75 billion yuan in fixed assets and 59 billion yuan in circulating funds. In 1985, the output value of township and town enterprises reached 272.8 billion yuan, 17 percent of the nation's gross value of social output. Of the total of 272.8 billion yuan, the industrial output of township and town enterprises accounted for 183.1 billion yuan, 19 percent of the nation's gross value of industrial output. Township and town enterprises have played an important role in the development of the entire national economy, paying 13.72 billion yuan to the state in taxes in 1985.

China's township and town enterprises, which have flourished in the wake of the restructuring of the economic system, include farming and breeding, in the primary industry; coal mining, power industry, chemical industry, metallurgy, construction materials, machinery, lumber industry, textiles, foodstuffs, apparel, leather goods, paper-making, arts and crafts, and construction, in the secondary industry; and communications, transportation, restaurants, and services, in the tertiary industry. As a sign of their special vitality, they have chalked up a faster growth rate than the average national economic growth rate in recent years.

In 1985, township and town enterprises contributed 44 percent of gross value of rural social output and provided jobs for almost 70 million redundant farm laborers, making possible improvements in agricultural labor productivity and increases in peasants' earnings. During the Sixth 5-Year Plan, enterprises at the two levels of township and village alone provided about 6 billion yuan in capital to agriculture and 23.2 billion yuan to a variety of rural projects and undertakings. Because of the development of township and town enterprises, 6,600 new market towns have begun to take shape. In 1985, peasant earnings rose to 397 yuan per capita, up from 191.3 yuan in 1980, a net gain of 205.7 yuan, of which 45 yuan on average were due to a rise in village enterprise wages.

Products made by township and village enterprises cover a wide spectrum and account for substantial shares of national output in the same categories:

raw coal, 28.9 percent of national total
silk, 11,200 tons
silk fabrics, 550 million meters
apparel, 50 percent of national total
output value of building materials, 53 percent of national total
number of construction workers, 60 percent of national total
50 percent of the output of township and town enterprises in the machinery industry consist of parts, components, and accessory equipment for large state-owned enterprises. Adapting themselves to market needs, they have filled a void in the industry and made good gaps in the product line of state owned enterprises.

The characteristics of Chinese township and town enterprises are the following:

(1) Small in scale and large in number, they are widely distributed across the vast countryside. (2) They are located near where raw materials are produced and have an extensive market and an ample labor supply. They require little capital and pay off quickly. (3) As enterprises run by the masses themselves, they have a considerable measure of autonomy and are full of vitality; (4) They are sensitive to market economic information and feedback, and flexible in their production planning.

After China adopted the "policy of opening to the outside world," the products of township and town enterprises have been making their way into the international market rapidly over the last couple of years. In 1985, township and town enterprises earned about $4 billion in foreign exchange from their exports. According to incomplete data, currently over 8,000 township and town enterprises have foreign trade and export commitments. Enterprises jointly operated by township and town enterprises and foreign companies now total 870, and as many as 1,000 enterprises are engaged in the "three forms of processing and compensation trade."

Undeniably the vast majority of China's township and town enterprises are still fitted with outdated equipment and follow obsolete technology and processes; they are suitable candidates for technological transformation. For this reason, township and town enterprises are particularly interested in absorbing overseas capital and importing advanced technology, equipment, and processes in order to transform aging enterprises and develop a host of new ones at the same time. Township and town enterprises warmly welcome cooperation with overseas individuals from all quarters, overseas Chinese, and Hong Kong and Macao compatriots. They are especially keen to enter into business contacts and cooperate with small and medium-sized companies abroad on a long-term basis. The forms of cooperation range far and wide and can take any of the following: joint venture, cooperative venture, leasing of equipment, technology transfer, trade, and economic exchange.

In the long run, the development of township and town enterprises will help settle the surplus rural labor, promote rural commodity production, nurture market towns, and obliterate rural-urban differences. Hence it is a vital strategic measure in the construction of socialism with Chinese characteristics and a major government policy in the development of the rural economy. It has a bright future.

We cordially welcome people from the financial, trade, and industry circles overseas to establish direct ties with all township and town enterprises in China. We will strengthen cooperation on the basis of equality and mutual benefit so that partners in a venture obtain legitimate economic benefits.

12581
CSO: 4006/21

SMALL-SCALE ENTERPRISES

DEVELOPMENT OF TOWNSHIP AND TOWN ENTERPRISES REVIEWED

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 20 Aug 86 p 1

[Article by Zhou Handa [0719 3211 6671]: "Township Enterprises A Vital Force in Foreign Trade"]

[Excerpts] A burgeoning economic force, township and town enterprises have flourished and brought prosperity to China's rural economy. As China opens itself more and more to the outside world, township and town enterprises have also moved from the countryside to the world and become potentially a key player in China's foreign trade to earn foreign exchange.

Today over 8,000 township and town enterprises have foreign trade commitments, producing 20 major categories of products, including machinery, industrial chemicals, building materials, minerals, light industrial goods, foodstuffs, textiles, apparel, arts and crafts. In 1985, township and town enterprises earned as much as $4 billion in foreign exchange, including income from labor services and worker .

Nurtured by governments and foreign trade agencies at all levels, township and town enterprises have changed export production and export mix:

Development acceleration. Over the past 2 years, the export procurement rate of township and town enterprises in such provinces and municipalities as Jiangsu, Shanghai, Zhejiang, Fujian, Shandong, Guangdong, Tianjin, and Beijing has all been increasing at an annual rate of more than 18 percent. In the first half of 1986, foreign trade procurement by township and town enterprises in Shanghai was worth 30 percent more than the corresponding period last year. So far 16 percent of the industrial products of the municipality's township and town enterprises have been earmarked for direct export, with a procurement value exceeding 1 billion yuan. Making full use of the fact that many of its residents have relatives overseas, Fujian has been assiduously wooing foreign capital and establishing linkages with enterprises in the mainland to develop export-oriented businesses. During the first 6 months this year, township and town enterprises in the province delivered exports with a total price tag of 130 million yuan, up 60 percent over the same period in 1985.

A strong export production capacity. In recent years, foreign trade agencies and departments in charge of township and town enterprises have been paying close attention to the enterprises as exporters and earners of foreign exchange. By attracting foreign capital and cooperating with units in the interior, a host of factories specializing in the production of exports; integrated trade, industrial, and agricultural enterprises; and integrated industrial and trade enterprises have merged. They operate on a large scale and are modernly equipped. Of all the nation's township and town enterprises, over 870 are joint ventures or cooperative ventures involving foreign companies. According to incomplete data from Guangzhou, Shanghai, Wuxi, and Changzhou, among other places, there are over 650 export specialized factories jointly operated by township and town enterprises and foreign businessmen. Township and town enterprises account for 40 percent of the woolen sweaters exported through the Shanghai Knitwear Import and Export Corporation.

A shift from raw materials to finished products and industrial processed goods as the major exports, from primary processing to the production of high-grade, precision and advanced products, and from small-batch production to mass production. No longer do township and town enterprises today export minerals and the usual arts and crafts such as straw-woven goods alone. They are also sending into the world market sophisticated products like machine tools, auto parts, petroleum drilling equipment, and high-class fashions. The universal joint cross, made by Hangzhou Universal Joint Factory, is the first product from China's automobile industry to crack the international market. The FK series of hydraulic anti-spurt control system, produced by Guangzhou Petroleum Machinery Plant, a township enterprise, not only is used by oil fields like Daqing, Zhongyuan and Daguang, but is also good enough to enter the international market. Shuangjie Steel Tube Plant in Shuanjin exports steel tubes to Europe, earning over $4.5 million in foreign exchange last year. Fashionable embroidered garments by Beicai Embroidery Factory in Shanghai are sold in more than 20 countries, including Japan and the U.S., raking in 9 million yuan in foreign exchange annually. The model 450 anti-corrosive filter press made by Qiqiao Filter Press Plant in Potoushi, Hebei, has broken into markets like Sweden and Australia.

To further enhance their export competitiveness, township and town enterprises are continuing to implement the policies of opening China to the outside world and invigorating the economy. Fully exploiting their resource advantage and relying on raw materials, they are importing capital, technology, and equipment, expediting the marriage between modern technology and traditional arts and crafts, developing famous, special, and superior products, and going all out to raise product quality. They take the "new," "high," and "low" tack, that is, producing "new," "high-quality," and "low-priced" products. At the same time, they are actively cooperating with foreign trade agencies, major industries, and scientific research units to develop horizontal economic linkages, bring about industrial and trade integration, and establish joint enterprises in order to enhance their ability to open up the world market.

12581
CSO: 4006/21

CONSTRUCTION BEGINS ON BRIDGE ACROSS SONGHUA JIANG

Harbin HEILONGJIANG RIBAO in Chinese, 3 Jul 86 p 1

[Article by reporters Zhou Yanhe [0719 1693 3109] and Zhang Limin [1728 0448 3046]: "Construction Begins on Jiamusi Highway Bridge Across Songhua Jiang"]

[Text] Construction work on the second highway bridge across the Songhua Jiang--Jiamusi-Songhua Jiang Highway Bridge--began at 2:30 pm yesterday. The rumble of machinery at the construction site filled the air as drill rods were inserted into the silent mother earth.

There is not a single highway bridge spanning the Songhua Jiang as the torrential 1,000-li river surges eastward for 500 km from Harbin to Jiamusi. Since the Heda-Haluo-Hetong Highway is cut off by the river, motor vehicles going from north to south and the other direction have to use the ferry in summer and travel over ice in winter. The only ferry is jammed with vehicles throughout the year. For a period of over 100 days between the freezing and unfreezing of the river, large mounds of materials are piled up on both sides of the river.

Approval for the construction of the Jiamusi-Songhua Jiang Highway Bridge was given by the Ministry of Communications in 1984. Designed by the provincial highway and planning office, construction work on the Harbin-Songhua Jiang Highway Bridge is being undertaken by the Provincial Road and Bridge Construction Co. It is being constructed in the hinterland of the plain--a focus of world attention--traversed by three rivers at Fanjiacun in Changqing Village 5 km from the center of Jiamusi. Measuring 1,396 meters in length, it is at present the longest highway bridge in the three provinces in northeast China. The main bridge is 910 meters in length. The net width of the bridge is 17 meters and the road, 14 meters wide, has four lanes for motor traffic. The sidewalks on both sides of the bridge measure 1.5 meters in width. The entire bridge has 25 arches, while the main bridge has 9. The longest span measures 120 meters. There are 8 arches at both ends of the side arches of the bridge, each of which measures 30 meters. The approach road from both directions is a Class 1 and Class 2 blacktop road measuring a total of 4,210 meters. This highway bridge is one of the large and medium-size cosntruction projects of the state as well as one of the key engineering projects in Heilongjiang Province. At a cost of 86 million yuan, it is expected to be completed in 4 years and put into operation on 1 October 1990.

9621
CSO: 4006/1306

CONSTRUCTION

IMPROVEMENT OF CONSTRUCTION QUALITY URGED

Beijing RENMIN RIBAO in Chinese 13 Aug 86 p 2

[Article by reporter Ge Daxing [5514 1129 2502]: "Improvement of the Quality of Construction Projects and the Removal of Hidden Dangers are Matters of Utmost Urgency"]

[Text] The results of a recent "Spot Check of the Quality of 100 Construction Enterprises and 100 Construction Component Factories Throughout the Nation During 1986" indicate that the improvement of the quality of construction projects in the reform of our construction industry and the development of production remain a task of utmost importance.

The check-up undertaken by the Ministry of Urban and Rural Construction and Environmental Protection, officially begun in April, was concluded in early July. Among the completed construction projects and projects in progress which were found to be up to standard were those undertaken by only three units, namely, the No 1 Construction Engineering Co in Shanghai, the No 3 Construction and Engineering Co in Shanxi, and the No 4 Construction and Engineering Co in Jinan. Among the 10 units whose completed construction projects and projects in progress were found to be substandard were the Wuhua District Construction Co in Kunming, the Putuo District Construction Co in Shanghai, the No 2 Construction and Installation Engineering Co in Hofei, the Construction and Installation Co in Nanning, the No 3 Construction and Installation Co in Guilin, the Changyi Nanjing Construction Department in Jilin, the No 3 Construction Co in Xining, the No 2 and No 3 Construction Companies in Yinchuan, and the No 2 Construction Engineering Co in Ningxia. The structural quality and operational functions of 135 of 387 completed engineering projects were found to be relatively sound, while those of the rest were found to be defective. The major flaws include leaking roofs, cracks in the floor, loose doors and windows, seepage in pipes and falling light fixtures. Although these flaws pose no immediate threat to structural safety, they nevertheless constitute a hidden danger to the consumer.

Among the 100 structural material factories covered by the spot check, only the prefabricated concrete circular slabs produced by the Structural Materials Factory of the Beijing Municipal Construction Head Co and the Shanghai Residential Concrete Products Factory were found to be of superior quality, while

61 factories, 63 percent of the total, were found to be up to standard. The products of the Fuhai Cement Products Factory in the Guandu District in Kunming, the No 2 Construction Structural Products Factory in Changzhou, and the Cement Products Factory of the Chuxiongzhou Construction Co in Yunnan were found to be the poorest. The round-hole slabs which were found to be below standard were faulted mainly for the exposure of reinforcing steel bars, cracks, weakness of the extremities, and errors in measurement.

Judging by the results of the spot check, although there are obvious signs that the deterioration of the quality of construction engineering prevailing a couple of years ago has been somewhat reversed, there is still a lack of stability and hidden dangers posed by poor quality continue to exist.

9621
CSO: 4006/1306

HEBEI: CONSTRUCTION OF BLAST FURNACE BEGINS

SK300644 Shijiazhuang HEBEI RIBAO in Chinese 16 Aug 86 p 1

[Exceprts] On the morning of 15 August, colored flags fluttered over the specious ground on the east side of the No 2 iron smelting plant of the Xuanhua Iron and Steel Company, and a deafening sound of songs, drums and firecrackers resounded over it. Provincial Governor Xie Feng, Zhao Lan, a representative from the Ministry of Metallurgical Industry, and other leading comrades inaugurated the foundation stone laying for the 1,260-[cubic meter] blast furnace project of the Xuanhua Iron and Steel Company.

The blast furnace is a construction project approved by the State Council and a key project of the metallurgical front for the Seventh 5-Year Plan period. After the blast furnace is completed and commissioned, the Xuanhua Iron and Steel Company will be able to increase its annual pig iron output from 600,000 to 1.05 million tons and improve its economic results. Meanwhile, the shortage of pig iron supply in north China will be eased.

Construction of the blast furnace requires an investment of 300 million yuan. Of the sum, 170 million yuan will be loans arranged by the Ministry of Metallurgical Industry for equipment renewal and technical transformation, and the rest will be raised by the Xuanhua Iron and Steel Company itself.

/12232
CSO: 4006/33

DOMESTIC TRADE

SICHUAN'S DOMESTIC TRADE SEEN AS VIGOROUS

Chengdu SICHUAN RIBAO in Chinese 10 Jul 86 p 1

[Article by Gu Guocai [6581 0949 2624]: "Through Lateral Economic Relations Trade Flourishes; Dealings on the Principle of Mutual Benefit and Reciprocity Bring Prolific Revenue--Enterprises of the Commerce Department of Sichuan Province Are Full of Vitality"]

[Text] During the last 2 years, the commercial departments at all levels of the Sichuan provincial administration, stimulated by the reform of the economic system, guided the various trades of the province to proceed from their own distinctive characteristics, and while observing the principle of mutual benefit and reciprocity, they vigorously developed lateral economic relations, opened up new markets outside of the province, and enriched the supply of commodities in the rural and urban markets of this province.

Sichuan trades dealing in nonstaple foodstuffs made it a key task to open up new markets outside of this province and to vigorously develop lateral economic relations. Foodstuffs departments throughout the province, benefiting by the year by year increases in hog production, exerted great efforts in opening up new markets outside of this province. In 1985, through the development of lateral economic relations, they shipped out over 3.6 million live hogs, which accounted for 54.68 percent of all exports from the province. During the period from the fourth quarter of 1984 to the end of last year, the Sichuan-Guangdong Foodstuffs Trading Co., which was set up jointly by the Sichuan and the Guangdong foodstuffs trading companies, shipped to Guangdong over 30,000 tons of cuts and carcasses, and established a steady market outlet outside of this province for Sichuan's live hogs. As a means of solving the problem of Sichuan's vegetable production, which at peak season exceeds local marketing capacity, the establishment of lateral economic ties enabled last year the shipment of over 80 million jin to northern cities. This year the shipments will reach 110 million jin, ensuring continued benefits for vegetable growers. The trading center for agricultural, sideline, and local specialty products at the Red Flag Nonstaple Foodstuffs Market in Chengdu developed to the fullest the advantage importing from outside and cooperating with units in other parts of the country. They attracted 39 enterprises dealing in nonstaple foodstuffs and 8 factories of different trades from within and from outside the municipality to set up their own stalls in the market, an action which increased the amount of merchandise sold 4.3 times and increased profits 7.15 times.

Trades dealing in manufactured goods for daily use, setting themselves the expansion of commodity purchases and sales as their central task, developed on a large scale such activities as joint business operations and joint marketing, purchasing and marketing agency arrangements, joint purchasing with separate marketing, separate purchasing and joint marketing, and the establishment of stable purchasing and marketing connections, all in efforts to expand commodity purchasing and marketing. In 1985 imports of manufactured goods into the province increased 22.9 percent compared with the corresponding period of the preceding year. Through the development of lateral economic ties, the one system of the Chongqing Commerce Department alone was able last year to increase the distribution of local manufactured goods to outside the province by 31.2 percent compared with the preceding year, thereby effectively promoting the development of local industry. Joint company-with-company business operations, as developed within the trading community, are the most widespread, most dynamic, and most effective patterns of joint operations. The Chengdu Metals Co. was able through widespread development of joint company-with-company business operations with establishments inside and outside the province to increase the amount of this year's joint operations to reach over 20 million yuan, an increase of over 30 percent compared with last year. Joint industrial and commercial business operations have had an early start in Sichuan and are being developed from initially merely solving the contradictions between industry and commerce to now having to comply with the needs of socialized large-scale production by joining together, while dividing profits, and to achieve their common development. By joining up with electric fan manufacturing enterprises, the Chongqing Communications and Electric Power Station could increase its sales in 5 years by over 8 times and marketed products over long distances to 14 provinces and municipalities. The catering trades were able by developing lateral economic relations to take full advantage of the high quality of Sichuan's fruits and famous snacks with most remarkable economic results. Currently, the catering trade of the entire province is operating, jointly or independently, over 50 Sichuan restaurants of different types in 18 provinces, municipalities, and autonomous regions throughout the country, operations from which almost 1 million yuan of labor income is earned.

9808
CSO:4006/1227

ANHUI MAKES NEW USE OF FOREIGN INVESTMENT IN 1986

Hefei ANHUI RIBAO in Chinese 28 May 86 p 1

[Article by Han Shu [7281 2118]: "New Progress This Year in Anhui's Ways of Utilizing Foreign Capital"]

[Text] Since the start of this year, a very satisfactory situation has become apparent in the way Anhui is using foreign capital. Up to the end of April, contracts for 22 new projects have been signed with foreign businessmen, involving the use of foreign capital; these transactions amount to a total of more than $46 million, of which more than $30 million are direct investments by foreign businessmen.

Foreign capital is used in the form of joint ventures, cooperative management enterprises, compensation trade, and leasing operations. Foreign capital is primarily used for industry and in second place for service trades. The sources of foreign capital are such countries and territories as Hong Kong, Canada, Italy, the Philippines, the United States, Denmark, France, Japan, and Finland.

To speed up checking and approval of contracts, and to reduce wrangling among departments, the economic and trade commission of the province has designated 11 relevant departments, the provincial economic commission, the finance bureau, the industrial and commercial administrative bureau, the labor bureau, the tax bureau, the foreign exchange control bureau, and the lawyers' office, as departments in charge. They have conducted collective hearings on specific problems of larger significance and thereby facilitated the operations of the enterprises, raised work efficiency, strengthened lateral links between departments, and promoted the smooth progress in all work related to the use of foreign capital.

9808
CSO: 4006/1150

FOREIGN TRADE AND INVESTMENT

FOREIGN EXCHANGE LOANS TO YUNNAN INCREASED IN SIXTH 5-YEAR PLAN

Kunming YUNNAN RIBAO in Chinese 27 May 86 p 2

[Article by Zhou Xiyuan [0719 6932 3293]: "Intensive Use of Foreign Capital in the Development of Yunnan's Economy--Rapid Expansion of Yunnan's Foreign Exchange Loans During the Sixth 5-Year Plan"]

[Text] The period of the Sixth 5-Year Plan saw a rapid expansion in Yunnan's foreign exchange loans. The foreign exchange loans approved during 1985 alone exceeded the number of loans during all of the 13 years since Yunnan began in 1973 to approve foreign exchange loans on an experimental basis, and they were 34 times more than such loans approved during the Fifth 5-Year Plan. The total amount of foreign exchange loans during the Sixth 5-Year Plan was more than 51 times the amount of such loans during the Fifth 5-Year Plan. The rapid development of foreign exchange credits stimulated Yunnan's imports of advanced technologies and equipment and accelerated the technical transformation and technological progress in the medium and small-scale enterprises throughout the province.

When granting foreign exchange loans, the Kunming branch of the Bank of China pays particular attention to supporting the superior products of Yunnan, such as tobacco, nonferrous metals, machinery, and products of the chemical industry. During 1984 and 1985 alone, the bank granted foreign exchange loans amounting to over $30 million to the tobacco industry to enable the Yuxi, Kunming, Qujing, Chuxiong, and Zhaotong cigarette factories to import 90 sets of key items of machinery for the manufacture and packaging of cigarettes, thereby accelerating the technological transformation in these five factories and raising the quality and the volume of cigarette production, thereby also enhancing their capability to earn foreign exchange through exports. In 1985 cigarette exports earned $25 million in foreign exchange, which was more than in any previous year, providing the local authorities with almost 1.6 billion yuan of revenue. The Yunnan phosphate fertilizer factory used a loan of over $10 million of foreign exchange to import equipment for ardealite reslashing and washing equipment, and also built and commissioned workshops for "zhong" [6850] calcium and sulfuric acid production. The "zhong" calcium was exported for the first time to Japan, and the first "zhong" calcium export enterprise was established in China. In December of the same year, the enterprise was successful in bidding, in competition against many other countries, when Sri Lanka invited tenders for 20,000 tons of "zhong" calcium. This year export contracts for 38,000 tons of "zhong" calcium have been signed..

Foreign exchange loans are an important channel of utilizing foreign capital. Yunnan's engineering and electrical industries use foreign exchange loans to actively import advanced technologies and equipment and to update their products. This year imported technologies and equipment of 10 projects are already being introduced, assimilated, and absorbed by enterprises, which makes it a record year over the last 35 years in Yunnan's engineering and electrical industries, as far as project imports are concerned. This will induce the "trifold antiquated" enterprises in these industries (old plants, old equipment, old techniques), established at the time of the War of Resistance Against Japan, to accelerate their technical transformation and technological progress, and will have the result that many engineering and electrical products manufactured in Yunnan will achieve the international level of the end of the 1970's or beginning 1980's.

9808
CSO: 4006/1150

FOREIGN TRADE AND INVESTMENT

NINGXIA COMMODITY INSPECTION BUREAU AIDS FOREIGN TRADE

Yinchuan NINGXIA RIBAO in Chinese 8 May 86 p 1

[Article by Pan Mengyang [3382 1125 7122] and Jiang Senlin [5592 2773 7792]: "Changing From a Pure Control Function to an Integration of Inspection with Service--The Commodity Inspection Bureau of the Autonomous Region Contributes to Increasing Exports and Foreign Exchange Revenue Earnings--Improving the Quality of Taixi Coal Alone Yielded the State $360,000 More Foreign Exchange Last Year"]

[Text] The Ningxia Import-Export Commodity Inspection Bureau coordinated its work closely with the production and foreign trade departments, and while conscientiously inspecting and exercising strict controls, also assisted the production units in raising the quality of export products, thereby actively contributing to the increase of exports and larger foreign exchange earnings.

During the last 2 years, as Ningxia accelerated its opening up to the outside, the lots of import and export commodities, their quantity and total value, increased tremendously. With limited personnel and the increased workload, the Import-Export Commodity Inspection Bureau changed its former method of exercising a pure control function by integrating inspection with control and control with service, thus having production units as well as social inspection function to the utmost of their capacities, integrated with the actual conditions of the Ningxia Autonomous Region. Concerned for the qualitative improvement of its export products, Ningxia has at different times during the last 2 years promulgated 13 administrative measures and regulations. The enforcement of these regulations have had marked results. After the bureau implemented the "Measures for the Inspection and Control of Fur Bedding and Fur Garments for Export," and instituted a trilevel system of control and inspection, the quality of beddings from the fur of the tan sheep was much improved, and claims for compensation on account of bad quality ceased.

The bureau, furthermore, dispatched inspection teams for an investigation of the true situation in over 80 production and trade units throughout Ningxia, to jointly confer on methods to raise product quality. With assistance from the said bureau, the Rujigou coal mine took resolute action to improve the quality of export coal and adopted a method of extracting, loading, and shipping according to quality, and of shipping selected lots of raw coal to the screening plant. At the screening plant, the bureau set up a special quality inspection station, also sent special staff for quality inspection to the actual places where dressing and screening is done, so as to be immediately available in case of any problem arising. Due to all-round controls, the quality of the Taixi coal was continuously improved. In 1985, by the mere fact of raising prices to foreign buyers on account of better quality, $369,300 in additional foreign exchange was earned for the state.

In 1985 not one lot of commodities exported from Ningxia was found not up to standards, and there was no case of a foreign buyer claiming compensation for reasons of quality. Many export commodities were favorably commented upon by port authorities and foreign buyers.

At the recent Conference on Import-Export Commodity Inspection in the Ningxia Autonomous Region, 7 units, 7 collectives, and 24 individuals received commendations and rewards for advanced performances. Yang Huiyun [2799 1920 0061], vice chairman of the Ningxia Autonomous Region, attended the conference and delivered a speech.

9808
CSO: 4006/1150

SPECIAL ECONOMIC ZONES

INVESTMENT CLIMATE IN SPECIAL ECONOMIC ZONES

Guangzhou GUANGDONG SHEHUI KEXUE [SOCIAL SCIENCES IN GUANGDONG] in Chinese No 2 Jun 86 pp 58-62

[Article by Chen Zhaobin [7115 5128 2430]: "Improving Investment Climate in Special Economic Zones"]

[Excerpts] What is the investment environment in China's special economic zones [SEZ's]?

(1) A safe investment climate. Since the 3d Plenum of the 11th CPC Central Committee, China has made it a long-term national policy to open to the outside world, explicitly affirming the legal status of investors and ensuring their legal interests in both the constitution and legislation dealing with foreign economic relations. Under the "Chinese-Foreign Joint Venture Law," the Chinese government protects the investments of foreign partners in joint ventures made in accordance with agreements and contracts approved by the Chinese government as well as their due profits and other legitimate returns. In practice, the Chinese government has consistently safeguarded the legitimate rights and interests of foreign businessmen. To enhance foreign investors' sense of security and give them even better legal protection, China has formulated a series of laws governing foreign economic relations. In recent years, China's legislative bodies have drawn up over 50 pieces of such laws, rules and regulations. Economic legislation for SEZ's has also received the close attention it deserves. The "Regulations for Special Economic Zones in Guangdong," promulgated in 1980, established their legal status , legally affirming some of the more important policies and measures on SEZ's. To make SEZ legislation better still, the Guangdong and Fujian Provincial People's Congresses and their standing committees were authorized in November 1981 to formulate special laws and regulations for their respective zones. Subsequently the standing committee of the Fifth Guangdong Provincial People's Congress passed and promulgated four sets of regulations: "Provisional Regulations of Guangdong Province for Controlling the Entry and Departure of SEZ Personnel," "Provisional Regulations of Guangdong Province for the Regulation of Enterprises," "Provisional Regulations of Guangdong Province for the Control of Labor and Wages in SEZ's," and "Provisional Regulations for Land Management in the Shenzhen SEZ." These regulations spell out clearly in statutory form some SEZ policies and measures. This was followed by a string of special regulations governing various aspects of foreign economic

relations, such as commodity and real estate management, foreign economic contracts, technology import, enterprise registration, and land use fees, etc. These laws, rules and regulations provide a favorable environment for foreign investors and a legal basis for their business activities, and legally safeguard their assets, due profits, and other legitimate rights and interests. Because economic legislation has gotten better and better, accompanied by a continuous improvement in the overall investment environment, foreign investments in recent years have been increasing steadily.

(2) A stable investment environment. Investors invariably hope that the place where they put their money will enjoy sustained political and economic stability. Investors who make long-term investments in resource development are particularly concerned to weigh the risks their investments are exposed to. In the case of China, the political situation has been stable since the 3d Plenary Session, which can be said for few other nations. Economically, both industrial and agricultural output has been expanding appreciably year after year, and every line of business is booming. Owing to reforms and the policy of opening to the outside world, in particular, the vast countryside and cities, fast shedding their backwardness, are a picture of prosperity. Political stability and economic prosperity provide an excellent environment for investors.

(3) A profitable investment environment. This includes China's market, resources, the quality of its labor force, level of wages, prices, and so on. A market consisting of 1 billion people, abundant resources, an ample labor supply, and relatively low wages--these are all advantages unique to China that make it an extremely attractive place to many investors. China's rapid economic growth in recent years, rising living standards, and the prosperity which some areas have already achieved ahead of others, in particular, suggest an expanding massive demand. The fact that price levels in China's market are relatively stable also means high profits for the makers of advanced and modern products. China, therefore, is a very profitable place for investors.

(4) An investment environment that offers preferential treatment. To encourage the inflow of foreign capital, China has offered an array of preferential treatments in such matters as tariffs, joint industrial and commercial tax, and income tax, and allowed part of the products to be sold domestically. In this respect, China's policy is more or less similar to that of other places and regions in the world. Each has its own strengths and weaknesses. Singapore's tax code, for instance, is good in that it offers clear and comprehensive incentives. For example, an enterprise manufacturing products on the cutting edge of technology is granted a 10 to 15-year exemption from income tax by on the presentation of a new product certificate. If an enterprise exports 20 percent of its total output, it will be exempt from paying income tax on 90 percent of its earnings for a period of 5 years. If the enterprise in question belongs to a sunrise industry, the exemption period will be extended to 15 years. To encourage research and development in new technology and new products, enterprises are allowed to double their R & D expenditures for the purpose of income tax calculation. When enterprises purchase computers and robots, they can write off depreciation within a year. All this is worthy of emulation.

(5) An investment environment that provides good services. Investment services include facilities for land, sea and air transportation and telecommunications, commercial facilities, and services in daily life, such as restaurants, urban infrastructure, and service efficiency. Major improvements have been made in this regard in recent years. The two SEZ's of Shenzhen and Zhuhai not only have the geographical advantage of being close to Hong Kong and Macao, but have also put up a string of guest houses, restaurants, tourist attractions, and shopping centers to make the daily life of foreign investors easier. Whether it is roads, transportation, telecommunications or banking, things are notably better now than before. People in the SEZ's have also become more efficient.

The above indicates that a favorable investment climate has come into existence in SEZ's and will get even better in the days ahead.

Preferential Treatment in SEZ's

Preferential treatment holds the key to attracting foreign investments and needs to be examined closely. Chinese SEZ's offer the following preferences:

1. Operations and management. 1) Foreign investors are given a fair amount of autonomy. It is their choice to go it alone or enter into a joint or cooperative venture with the zone. 2) They are allowed to hire foreigners, overseas Chinese, or people from Macao and Hong Kong to fill technical and managerial positions. 3) In hiring Chinese workers, they can either go through labor service companies or recruit on their own. Employment is on a contract basis, with a 3- to 6-month probation period. 4) Enterprises can dismiss workers in accordance with regulations in the event of changes in production or technical conditions. 5) When a worker violates the rules of an enterprise, he may be subject to punishment ranging from warning and the recording of a demerit to wage reduction to dismissal. 6) An enterprise can choose its own wage system: It can pay its workers by the piece, hour, month or year.

2. Foreign exchange control. 1) A foreign investor may open an account and conduct foreign exchange transactions with the Bank of China in the zone or with another bank approved by the Chinese government. 2) The foreign employees of an enterprise can remit overseas their wages and other legitimate earnings minus income tax in accordance with relevant regulations. 3) An enterprise may remit overseas its legitimate profits minus income tax in accordance with relevant regulations. 4) If an enterprise goes out of business, it is allowed to transfer its assets and remit funds overseas after reporting the closure to the authorities, going through the necessary formalities, and paying off its debts.

3. Preferential tax treatments. 1) Enterprises in a SEZ may import tariff-free machinery, equipment, parts and components, raw materials, means of transportation and other necessary means of production. 2) Articles of daily use can be imported tariff-free. Exceptions are cigarettes and liquors, which are taxed at half the lowest rate, and cosmetics, which are taxed as the law provides. 3) Finished and semi-finished goods produced by SEZ enterprises for the foreign market are exempt from export duties. 4) The income tax rate for enterprises in SEZ is 15 percent. Enterprises capitalized at over $5 million,

technology-intensive enterprises, and enterprises which require a relatively long period to recoup their investments enjoy additional tax breaks: During the first 2 years after they start making a profit, they will be exempt from paying taxes, followed by 3 years when their tax payments will be reduced by half. In addition, all local surtaxes will be waived. 5) When a foreign investor plows back his profits into his enterprise in the zone for more than 5 years, he may apply for income tax deductibility for such outlays in part or in whole. 6) The exports of a SEZ enterprise are exempt from tariffs and industrial and commercial tax.

4. Land use. 1) A SEZ should satisfy the land use needs of investors and set different maximum land use periods for different purposes, with option for renewal when the period expires provided that permission has been obtained from the department in charge in the zone. 2) Preferential treatment, including exemption, should be offered in the collection of land use fees after taking into account the circumstances in different localities, different industries, and varying land use periods. 3) Criteria for the imposition of land use fees should vary in accordance with industry and location. Preferential treatments should differ accordingly. 4) Land use fees can be paid in one lump sum or annually over a number of years at an annual interest rate of 8 percent. The preferences mentioned above can be reasonably adjusted depending on the circumstances of each locality.

5. The sale of products. While SEZ's encourage enterprises to market their products on the international market, Chinese-foreign joint ventures are allowed to sell a fixed percentage of their products domestically. The percentage may be increased and the enterprise granted a certain amount of foreign exchange as appropriate if the product concerned is made of Chinese raw materials, if the foreign investor involved has provided advanced technology, or if it is something that China has to import otherwise.

6. Entry and Departure. Everything will be done to facilitate the entry and departure of foreign businessmen when they visit the zones as part of a study mission, for sightseeing, or to negotiate business deals, invest, and build plants. For instance, a special SEZ passage may be set aside at a port where private cars from Hong Kong may enter and leave the zone. Customs hours may be lengthened. The number of entry/departure ports may be increased and entry/departure formalities simplified. Foreign businessmen who invest, build factories, finance some kind of project or own residential properties in a zone and who visit the zone frequently should be issued visas good for multiple entry on the production of identification issued by the enterprise in the zone. To make things as convenient as possible for them, inspection authorities at the port should give them priority when they clear customs.

A Number of Noteworthy Points About the Investment Climate

Despite the remarkable improvements in the investment climate in SEZ's as a result of developments in the last couple of years, a number of issues remain when it comes to making them even more attractive and competitive.

1. We must take policy continuity seriously and not change it ever so casually. We should also legislate into law the more important principles and

regulations embodied in policies to give them a legal status, thereby heightening investors' sense of security and trust. The problem now is that some functional agencies and departments in charge in the localities fail to give due consideration to the special conditions in SEZ's so that they often stipulate that "no exception be made for SEZ's" in the documents they issue to their subordinate agencies. As a result, severe limits are placed on the authority that originally belongs to the zones and on the conveniences and preferences due foreign investors, giving foreigners the impression that Chinese policies are fickle. This cannot but affect China's attractiveness to foreign investors. In the future, therefore, policy documents concerning SEZ's must be well coordinated. Even where amendments and improvements are indeed justified, they should be effected through the required procedures. Nor should they be altered at will. We must do our best to win the trust of foreign businessmen.

It must also be emphasized that foreign investors set great store by legal safeguards. While we have formulated a series of special regulations, we must continue the effort to perfect them in order to make foreign investors feel that there is a legal basis for their various economic activities and that they are protected. This is a vital part of the creation of a good investment climate in SEZ's.

2. We must step up infrastructural development. As enterprises spring up in SEZ's, as industry and trade blossom across the board, and as the movements of residents and tourists sharply increase, the idea of relying on infrastructural facilities alone has become grossly inadequate: We must think in terms of an infrastructural structure. Infrastructural structure is as important to urban construction as infrastructural facilities are to a particular developing area. A failure to plan comprehensively for the infrastructure as a whole or to develop it properly can cause the entire area or even city all kinds of adverse consequences. If the infrastructure of a zone remains backward, it will hamper the inflow of foreign capital.

3. We must go out of our way to offer preferential treatment to overseas Chinese investors and investors from Macao and Hong Kong. Most overseas Chinese are highly nationalistic and patriotic and concern themselves with the development of the motherland. As for Macao and Hong Kong compatriots, they feel so close to the motherland that they are part and parcel of it. There is a vast amount of overseas Chinese, Macao, and Hong Kong capital, with estimates putting it at over $100 billion all told. By investing in China, they help China's four modernizations as well as benefiting themselves economically. All four SEZ's are home to overseas Chinese. For instance, overseas Chinese from the Shantou area and Hong Kong and Macao compatriots number about 6 million in all and are scattered in 34 nations and regions throughout Southeast Asia, Europe and the U.S. Xiamen, also well-known as the hometown of many overseas Chinese, is the birthplace of over 200,000 overseas Chinese and foreigners of Chinese ancestry. The "golden triangle" in southern Fujian has 3.2 million sons and daughters living abroad. Most residents in Shenzhen and Zhuhai have relatives in Hong Kong and Macao. Overseas Chinese investments and investments by Hong Kong and Macao compatriots are playing a vital role in SEZ's as demonstrated by the fact that Hong Kong and Macao capital accounts for 80 percent of combined investments in Shenzhen.

But some problems remain. If we look at the investments, we will see that while investment agreements abound, little capital has actually been invested. Small projects outnumber large projects. Most involve ordinary technology; advanced technology is rarely used. All this shows that the potential of overseas Chinese, Hong Kong, and Macao capital has not been fully tapped. We must step up our effort to attract such capital with the right policies and measures, including preferential treatments. We must further improve the investment environment. To draw the interest of overseas Chinese in investing in China, we should also implement the overseas Chinese policy in earnest.

4. In foreign exchange control, we must satisfactorily resolve the problem of remission of profits by foreign businessmen. As far as preferential treatment is concerned, there remains this problem: In remitting his profits overseas, the foreign businessman has no guarantee that he can obtain foreign exchange. The "Provisional Regulations for Foreign Exchange Control" stipulate that foreign exchange remittances should come from the foreign exchange account of the enterprise. If there is insufficient foreign exchange in the account, then he can remit no exchange. As for the government stepping in to regulate the flow of foreign exchange, that too is fraught with difficulties. This problem should be seriously addressed and resolved.

From the perspective of providing foreign businessman with the right conditions, it is necessary to set up a foreign exchange regulatory market in SEZ's to ease the circulation of foreign exchange. The Shenzhen SEZ has been investigating the prospect here. It should speed up its investigation in order to find a new approach to help foreign enterprises balance their foreign exchange.

5. Improve the quality of the labor force. An abundant labor supply and relatively low wages put China in a strong position to attract foreign investments. But foreign businessmen should be more concerned to upgrade the quality of the labor force. A labor force which is merely cheap but which is unskilled and low in productivity cannot be much of an asset. Besides, wage levels in SEZ's have been going up rather quickly. If we do not improve the quality of the labor force, not only will we fail to meet the demand of importing advanced technology and equipment, but the zones will also become less attractive for foreign businessmen. Nowadays some projects in the zones must recruit in Hong Kong when they import advanced technology. We should take this situation seriously and accelerate the training of workers in the zones to upgrade their technical standards and increase their modern knowledge. This is yet another urgent mission in the improvement of the investment environment.

12581
CSO: 4006/1292

SPECIAL ECONOMIC ZONES

SHENZHEN'S ECONOMIC DEVELOPMENT STRATEGY

Guangzhou GUANGDONG SHEHUI KEXUE [SOCIAL SCIENCES IN GUANGDONG] in Chinese No 2, Jun 86 pp 63-66

[Article by Liu Peiqiong [0491 0160 8825]: "What Shenzhen Must Do to Orient Itself to Export"]

[Text] After 6 years of hard pioneering work, the Shenzhen Special Economic Zone [SEZ] is gradually beginning to take shape. Still it remains in an exploratory stage on the road toward development. Following a period of debate, Shenzhen decided to devote itself to the development of export-oriented industries and the fulfillment of its role as a window in the import of capital, technology, knowledge, and managerial experience. This article looks at economic development policies in Shenzhen from a macroeconomic perspective, using whatever data available.

In the beginning, Shenzhen had a population of only about 100,000. As it became a city, people began pouring into it. According to the 1981 census, its population was 350,000. By 1985, it had reached 716,500, of which 470,000 were zone residents, including 230,000 permanent residents and 240,000 transients. In other words, half of the people in the zone were a mobile population with no permanent registered residence. Some of them came from other provinces and municipalities and some from the adjoining villages. The 1981 census shows that the bulk of the population were in the working age group and that there were relatively few children and elderly people. The advantage of such a population structure is the low percentage of dependents, which means a comparatively light burden on social welfare. The disadvantage is that the population has not settled down and lacks a sense of belonging, a minus as far as social construction is concerned.

In 1985, Shenzhen's gross value of social output already reached 6.5 billion yuan. Gross local output was valued at 3 billion yuan, of which industry accounted for 1.52 billion yuan (50.7 percent), the tertiary industry, 1.91 billion (40.5 percent), and the primary industry, 265 million yuan (8.8 percent). In terms of economic structure, Shenzhen's is an urban economy dominated by industry. Of the gross value of industrial output of 2.67 billion yuan, exports accounted for a high 32.3 percent. (Footnote 1) ("Statistical Bulletin on National Economic and Social Development in 1985," Shenzhen Municipal Statistical Bureau, 21 March 1986.)

The absence of employment data prevents us from analyzing the industrial structure. Nevertheless, we can conclude from gross output value data that workers in the secondary industry and employees of institutions and businesses in the tertiary industry make up a significant share of the population.

Shenzhen's gross value of local output is estimated at 3 billion yuan, up 29.8 percent over 1984, with per capita income (net output value) reaching $1,000. Shenzhen has attained the goal of a relatively comfortable standard of living set for the end of the century. Clearly internal demand alone cannot have made possible such an achievement within a few short years. What Shenzhen has depended on in addition was markets and resources outside the municipality itself.

In the past 8 years, Shenzhen concentrated on infrastructural construction in its investments, which amounted to 6.3 billion yuan. Of this total, state investments accounted for 40 percent; investments by various central ministries and provinces, 35 percent; and local and foreign investments, the remainder. (Footnote 2) (Zheng Jiaguang [6774 1367 0342], "A General Discussion on the Infrastructure in the Shenzhen Special Economic Zone," in "Zhongguo Jingji Tequ Nianjian,' 1985 edition, p 171.) These are necessary investments and unavoidably require government commitment. Shenzhen still follows the domestic economic system, and it is only under this system that the government becomes responsible for housing and social service facilities.

Table 1 Completion of Infrastructural Projects in Shenzhen

Year	Area under Construction (in 10,000 square meters)	Investments (in 10,000 yuan)
1978	5.8-	1.182-
1979	13.0 (+124.1%)	4.988 (+322%)
1980	34.6 (+166.2%)	12.487 (+150%)
1981	54.6 (+57.8%)	27.039 (+117%)
1982	92.7 (+69.8%)	63.265 (+114%)
1983	146.9 (+110.5%)	88.593 (+40%)
1984	276.0 (+87.9%)	159.083 (+80%)
1985	320.9 (+16.3%)	276.000 (+73%)

Source: Jingji Tequ Nianjian, 1985

Fixed assets investments reached 1,347 billion yuan in 1985, most of them being bank loans and foreign capital. In other words, these investments were dependent on expected returns and repayment ability. The level of these investments is more closely tied to the economic environment and conditions. The distribution of the sources of capital (1979-1984) is as follows: (Footnote 3) "Zhongguo Jingji Tequ Nianjian," 1985 edition, p 197.)

Table 2 Distribution of Sources of Capital (1979-1984)
(in percentage)

Bank loans	28.48
Foreign capital	27.61
Municipal appropriations	11.53
Loans by municipal enterprises	10.60

State investments	7.38
Investments by central ministries, other provinces	6.47
Investments by interior enterprises	4.33
Others	3.55

Source: Jingji Tequ Nianjian, 1985

Industrial investments reached 2.674 billion yuan in 1985, an increase of 60.3 percent over the preceding year. According to Shenzhen municipal data, the distribution and development of the markets of zone products are as follows: (Footnote 4) (Zhou Xiwu [0719 3305 5294] (deputy mayor of the municipality of Shenzhen), "Strive to Make SEZ Industry Export-Oriented," originally published in "Import," No 3, 1985, p 6. "Import substitution" here refers to products sold for foreign exchange on the domestic market.)

Table 3 Market Distribution of the Products of the Zone (in percentages)

Year	1984	1985	1988 (target)
International Market	20.0	25.0	30
Sales within Zone			
foreign exchange	9.7	10.0	20
renminbi	37.5	20.0	-
Import Substitution	4.6	7.0	20
Mainland Sales	28.2	38.0	30

The above data shows that the mainland is the largest market for Shenzhen's industrial products and that exports account for 25 percent of the zone's output. Local demand is limited in a small city with only 700,000 people. Hence its dependence on mainland and overseas markets. When these markets show signs of economic instability, the sale of Shenzhen's industrial products is directly affected. As a result, the zone's very economic structure is a source of instability.

Turning to Shenzhen's export mix, since the zone lacks natural resources, its major exports are electronic, light industrial, and textile products. These products encounter fierce competition on the international market and are subject to numerous restrictions. To remain competitive, Shenzhen must have adequate up-to-date market information.

Table 4 Shenzhen's Export Mix (1985) (in percentages)

Agricultural byproducts and native produce	29.6
Processed agricultural byproducts	16.5
Electronic, light industrial, and textile products	51.7
Industrial and mineral products	2.2

Total output value: $563.4 million
Source: Statistical Report on National Economic and Social Development in 1985

Shenzhen has attracted over $1 billion in foreign capital since 1979. In 1985, agreements with a combined value of $1.02 billion were signed, while $329 million were actually invested, of which $180 million were direct investments by foreign companies, $135 million were foreign loans, and $13.51

million were commercial credits.

In recent years, Shenzhen has also gone in for joint investments with enterprises in the mainland, investing a total of more than 200 million yuan, primarily in electronics, commerce, construction materials, and agriculture.

The Shenzhen municipal government has a very small budget which probably excludes the expenditures and revenues of enterprises run by the municipality. In 1985, for instance, it more or less balanced its accounts with total revenues at 889 million yuan, provincial subsidies at 20,184,000 yuan and expenditures at 883 million yuan. That expenditures make up 29.4 percent of gross value of local output constitutes a heavy burden on Shenzhen. Needless to say, a big chunk of its expenditures goes to finance infrastructural development.

Although foreign banks have set up branches in Shenzhen, their scope of operations is limited to transactions with businesses financed by foreign capital. Overall the credit situation in Shenzhen is still tied to Chinese policies and hence lacks any active regulatory mechanisms. For this reason, Shenzhen's economic activities are directly related to China's internal policies.

Turning to prices, Shenzhen experienced sharp price increases over the last few years. In 1985, for example, retail prices soared 23.2 percent. Although national income per capita is very high and wages have been adjusted, the gains have been offset by inflation. Since some prices have been adjusted sooner than others, many products are priced far above public purchasing power and cater only to out-of-town tourists. The result is heavy losses.

In 1984, Shenzhen's 270 industrial enterprises earned enough foreign exchange from the sale of their products to cover just 75 percent of their foreign exchange spending on production. Like other areas and cities in the nation, Shenzhen is hard pressed to balance its foreign exchange, something which can hardly be avoided. With limited foreign exchange at its disposal, Shenzhen faces foreign exchange circulation problems. The root of the problems is an irrational exchange rate and a persistent failure to balance market supply with demand. It is the desire to get around this restriction that prompts Shenzhen to consider setting up a "foreign exchange regulatory center" to adjust the exchange rate to a certain extent. However, in the absence of a floating exchange rate, its effects will be minuscule.

Judging from the limited data above, we can see in what ways Shenzhen is equipped to develop an export-oriented economy and the limitations it labors under.

A structure capable of flexible regulation and of reacting to changes in the external conditions, including capital sources and markets, is most essential to an economic system geared to attracting foreign capital and exporting to earn foreign exchange.

As far as Shenzhen is concerned, since its overriding goal is to attract foreign capital, it must create and maintain a stable investment environment.

At present Shenzhen basically follows the same investment laws and practices in effect in the nation. The investment procedures are tedious and overelaborate and the rights and interests of partners in joint ventures are not clearly spelled out. Nor has much thought been given to them. For instance, there are no detailed provisions governing business closings and cash flow difficulties. When an investor closes his business during a recession, it will cost him dearly.

Externally, Shenzhen is vulnerable to destabilizing factors. Internally, it rests on a shaky basis. Moreover, it has to follow the systems in force in the nation and cannot make structural adjustments in time. For instance,it lacks a flexible capital market and interest rates are not fluid enough. Government departments are excessively burdened with the long-term responsibility of providing welfare facilities, including housing and medical services, etc. State-owned enterprises are similarly saddled. There is still a wide gap between the price and wage systems and the free market. Consequently, production costs cannot be lowered and a rigidity sets in with enterprises unable to respond to the national market.

As a small city with only 700,000 people, Shenzhen's internal demand is limited. Besides, a large part of its population consists of transients. Under these circumstances, it is neither possible nor necessary to maintain a stable economic structure. Shenzhen must not be so subject to ideological strictures unfavorable to economic development that it ignores objective conditions and environment.

If it is to develop an export-oriented economy, Shenzhen must equip itself in the following ways:

1) It must be an opened city, adopt a relatively liberal policy to attract foreign capital, make things easy for foreign businessmen when they invest in or withdraw from a venture, reduce the costs and simplify the procedures of opening a business, and formulate clear legislation to facilitate enterprise cash flow.
2) A rudimentary infrastructure is now in place. In the future, the government should undertake infrastructural projects only as long as resources permit. In public finance, the tax system and public spending system should be reformed to reduce the burden on investors. Administrative procedures should be streamlined and departments well coordinated to improve efficiency.
3) The labor market should be reformed. There should be changes in the wage and price systems to make the labor market more flexible.
4) The social welfare system should be reformed to adapt it to the development of a city with a high degree of population mobility.
5) To meet the unstable character of an export-oriented economy, Shenzhen should open up internal sources of capital by encouraging private individuals to pool resources and invest in industries or services to create an all-round local economic structure, which will cushion the impact of external factors. Up to a point, internal accumulation can function as a stabilizing force. Moreover, it will lessen the burden on the government coffers and increase government revenues.

An export-oriented economy must be based on comparative cost advantage. Right now Shenzhen industry still cannot compete on the international market.

Therefore, industry should be encouraged to gear themselves to the domestic market as well as long as it does not become dependent on imported materials in the process. To a certain extent, this kind of geographical division of labor and export promotes economic development, and even if imported materials are used, it will still benefit the national economy provided that costs are lowered and the resultant products can replace imports. In view of conditions in the international market, it is a pragmatic move to permit the zone to orient itself to the Chinese market. Supported by the domestic market, Shenzhen will then be better placed to upgrade its industrial production standards and pave the way for an export drive.

Finance, price, and foreign exchange are complex issues which cover a wide area. Before the economic system is overhauled and connections with the interior are completely severed, there remains a barrage of barriers to major reform. Shenzhen must contemplate gradual improvement as it reforms the labor market, capital market, and government administration. Under no conditions should it rush headlong into action.

Because of a shortage of time and data, many issues have not been examined in depth. These are only tentative ideas.

12581
CSO: 4006/1292

POPULATION

[redacted]

ON BEIJING'S AGING POPULATION

Beijing BEIJING RIBAO in Chinese 7 Jul 86 p 3

[Article by Shi Yan [4258 1484] and Shi Lin [4258 2651]: "Analyzing the Aging of Beijing's Population and Measures To Cope With the Situation"]

[Excerpts] 1. Projection, Analysis of Aging of Beijing's Population

Basing on an analysis of data from a 1982 investigation by a relevant department, we can project as follows: Presupposing a continued implementation of all current population policies, the overall trend in the age composition of Beijing's population, prior to the year 2032, will be: a decline, wave after wave, in the number of children, youths, and persons in the prime of their lives, a steep increase in the number of old people, and a progressive increase of the old-age proportion in the composition of the population.

In the next 50 years, the aging of Beijing's population in absolute figures will on the whole proceed in four phases: (1) The period from 1982 to 2000 will be a phase of rapid increase. During this phase, the total number of old people aged 60 or more will increase from 791,000 to 1,611,000, an increase of 103.7 percent. The average annual increase will be 45,000 persons, an average annual rate of increase of 4 percent. (2) The period from 2001 to 2010 will be a phase of slow increases. During this phase, the increase in the population of aged people will temporarily slow down; the increase will be from 1,611,000 to 1,833,000, an increase of 13.8 percent. With an average annual increase of 22,000 persons, the average annual rate of increase will be 1.4 percent. (3) The period from 2011 to 2025 will be a second phase of large-scale increases. During this phase, the number of aged will increase from 1,833 to 3,092,000, an increase of 68.7 percent. With an average annual increase of 83,900 persons, the average annual rate will be 4.6 percent. (4) From 2026 to 2030, increases will again proceed at a slower pace. During this phase, the number of aged will increase from 3,092,000 to 3,154,000, an increase of 2 percent. With an average annual increase of 12,400 persons, the average annual rate of increase will be 0.4 percent. In other words, during the next half century, the aging of Beijing's population will proceed in two fast and two slow stages.

Apart from the vigorous start and the steep upturns in the aging of Beijing's population, as stated above, this development is also basically characterized by the following: A large absolute magnitude of the aged population and an incessantly growing proportion of aged depending on social support. In the next 50 years, the number of old people aged 60 and more will increase from 791,000 to 3,141,000, an almost threefold increase. The change in the proportion of aged to the total population shows in that in 1982 there was 1 old person aged 60 or more for every 11.7 permanent residents; in 2000 there will be 1 aged person for every 6.8 residents; in 2010 there will be 1 aged person for every 6.1 residents; in 2020 there will be 1 aged person for every 4.3 residents; in 2032 there will be 1 aged person for every 3.5 residents. In other words, in the thirties of the next century, there will be 1 old person aged 60 or more among every 3 residents. The number of persons of very advanced ages of 80 or more years will increase rapidly. During the period from 1982 to 2000, the number of old persons aged 80 or more in Beijing will increase 2.99-fold, at an average annual rate of 7.2 percent, faster than the 4 percent increase in the number of old persons in their sixties and seventies. The average educational level of the aged will be the highest in the country. Among those aged 60 or more in Beijing, 3.3 percent are graduates from universities, 2.8 percent have had senior high school, 6.3 percent junior high school, and 24.9 percent elementary school education, while 62.7 percent are illiterate or semi-illiterate. Compared with the situation throughout the entire country, the proportion of university-educated aged persons is 10 times that of university-educated aged persons in the nation as a whole, and on the other hand the proportion of illiterate and semi-illiterate persons is lower than the average figure for the country as a whole. There is a larger number of leading party and government cadres and of specialized technical cadres in Beijing. The proportion of Beijing's aged who at one time had held responsible positions in state organs, in party or mass organizations, in enterprises, and in industrial units or who had served as government personnel, is 2.6 times larger than the average for the entire country. The proportion of specialized technical cadres of all kinds is about 1.7 times the average level for the whole country. The livelihood requirements during their remaining years--apart from what is generally required by aged people--are at an even more elevated level as regards intellectual needs and a share in social developments.

2. Measures To Solve the Problems of Population Aging

We believe that the strategic objectives in solving the problems related with the aging of the population must be, on the one hand, a control of population growth, and, on the other hand, guarding against an overaged state of the population. In population reproduction we must strive to achieve a stable development of the age composition of the population, and to have population development advance in full harmony with the economic and social development. To achieve the above-stated objectives, we may proceed in two stages. The first stage would be to effectively carry out certain preparatory work before the year 2000, to ready us for the coming high tide of population aging. First, we have to do a good job of ideological preparation, to be ready to answer all kinds of theoretical and ideological questions regarding population aging. Second, we have to do a good job of material preparation, to make the necessary readjustments in the apportionment of economic and social requirements, to effectively prepare for health care, recreation and livelihood service facilities for the aged. Third, we have to do a good job of legislative preparation, to safeguard the legitimate rights and interests of the aged and to ensure social stability and unity. Fourth, we must do a good job of preparing the construction of our spiritual civilization, establish and promote excellent moral habits, and bring about the general social acceptance of respecting, honoring, and supporting the aged. At the same time, we must energetically and effectively solve the aging problems that have already surfaced.

During the second stage, from the year 2000 on, presupposing the impetus of a steady economic and social progress of considerable magnitude, we must effectively solve the primary needs of the huge group of aged, gradually adjust our population policies, and induce a more stable and rational age composition of the population.

In concrete terms, our work during the two stages has to be: A further amplification and perfection of the social security system and insistence on the revolutionary direction of the integration of socialized administration with unit administration, to be predominantly socialist administration. We must first of all reform the system of having state-run and large collective enterprises raise their own retirement funds and must institute as quickly as possible the overall unified appropriation of retirement funds and gradually institute overall unified administration of retiring employees and workers. Measures should be taken to solve the problem of declining living standards of some of the retiring employees and workers. We must at the same time establish a sound system of old-age pensions in newly established collective enterprises. We must study and formulate a retirement insurance policy for contract labor, temporary labor, for staff and workers in the various joint enterprises, and for self-employed workers. Because of the gradual increase in the proportion of aged and their increasing numbers, we must, in addition to pensions provided by the state or the collectives, energetically develop social insurance facilities, establish a financial organ for retirement insurance funds, and through a variety of channels raise a retirement reserve fund, also encourage individuals and household to save up in retirement funds.

Another important aspect is the adjustment of the production structure, so as to fit it to the changes brought about by the aging in the composition of the population. One consideration is that the production structure must conform to the annual upward trend in the average age of the labor force and that a production structure of mainly knowledge-intensive and technology-intensive forms must be adopted as quickly as possible. Another consideration is that because of the increasing ages in the population there are bound to be changes in the social consumption structure. We must strengthen the production and supply of clothes, foodstuffs, and utensils for the aged, solve difficulties the aged may have in making their purchases, and energetically set up tertiary industries that serve the aged, especially household service trades for the aged.

The aged have abundant experiences. The capital is a gathering place of aged intellectuals, and should, therefore, more fully manifest the role of the aged as "treasure houses of knowledge." The following are our suggestions in this respect: Instituting a flexible retirement system. In the case of aged personnel who are in good health, who have technical skills, and who are actually needed by their units, the retirement age may be deferred, or they may be employed on a half-time or hourly basis, in this way advocating that the aged should work for society or for their families to the utmost of their abilities, depending on the special circumstances of the persons and places involved, and have them serve as consultants to enterprises or industrial units. Expediting educational facilities for the aged, to assist them in updating their knowledge, and to provide the preconditions for their participation in social development.

It is absolutely necessary to make positive and effective arrangements for the livelihood of the aged. We must implement a policy that gives priority to prevention, we must enhance the state of health of the aged, prevent sicknesses from occurring, also provide convenient and effective health and medical facilities. Currently, there is a serious shortage of medical facilities for the aged in this city. The difficulty of obtaining medical treatment is an extremely acute problem for the aged. From now on, clear and definite provisions must be made, and these should be enforced as soon as possible. Moreover, we must expedite the institution of welfare facilities for the aged and as soon as possible transform them from mere relief measures to social welfare measures, also transform them from measures merely financed by the state to such that are financed jointly by state, collectives, and individuals. Service facilities for the aged may be provided in a variety of forms, either free of charge, partly free of charge or completely self-supporting. The question of "old-age homes" was brought up as a means of solving actual livelihood needs of the aged and is also well worth while our consideration.

Approaching the question from the ideological angle, we must further strengthen education throughout the entire society toward respecting, honoring, loving, and supporting the aged, making this an important organic component of our efforts toward spiritual civilization in the capital. We must vigorously push the formulation of policies, laws, and regulations that will protect the legitimate rights and interests of the aged. The schools must make education toward respecting, honoring, loving, and supporting the aged one of the subjects of the moral education of students. At the same time, the aged must be educated to uphold the revolutionary ideals, maintain integrity in their later years, show solicitude for and actively participate in social developments, and to work to the utmost of their ability for the establishment of the two kinds of civilizations in the capital.

We believe in order to scientifically resolve the problem of aging of the population, to accurately guide the aged in peacefully spending their later years, and to have such research work as sociology of the aged, psychology of the aged, pedagogics of the aged, and physical culture of the aged promptly catch up with developments, the leading departments in charge must give a sufficient amount of serious attention to such work, and have Beijing march in the forefront of the entire nation as far as such work is concerned.

9808
CSO: 4006/1220

TRANSPORTATION

TRANSPORT CARGO VOLUME SHOWS INCREASE

HK270450 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 20 Aug 86 p 3

[Text] China's transport network system painted a mixed picture in the first six months of this year. Cargo transport showed growth while passenger transport declined.

According to newly released figures from the State Statistical Bureau, cargo volume reached 1.23 billion tons, an increase of 3.6 percent over the same period last year. Of the total, railroads carried 660 million tons of cargo, an increase of 3.9 percent; highways, 320 million tons, up 1.2 percent; waterways, 250 million tons, up 5.4 percent; air freight, 99,600 tons, up 10.6 percent.

Cargo volume reached 823.2 billion ton-kilometres, a rise of 6.4 percent. Of the total, rail cargo volume reached 426.1 billion ton-kilometres, up 8.4 percent; highways, 17.27 billion ton-kilometres, equivalent to the same period last year; waterways, 379.6 billion ton-kilometres, up 3.9 percent; air freight, 195 million ton-kilometres, up 5.1 percent.

Passenger volume reached 2.8 billion people, a decline of 0.4 percent. Of the total, railways carried 520 million passengers in the first six months, a decline of 12.2 percent; highways, 2.15 billion, up 2 percent; waterways, 125 million, a drop of 7.8 percent; air freight, 4.22 million, up 28.1 percent.

Passenger volume totalled 218.3 billion passenger-kilometres, a raise of 2.9 percent. Of the total, passenger volume of railways reached 122.4 billion passenger-kilometres, up 1.4 percent; highways, 81.6 billion passenger-kilometres, up 5.9 percent; waterways, 8.24 billion passenger-kilometres, a decline of 4.9 percent; air travel, 6.03 billion passenger-kilometres, up 17 percent.

/7358
CSO: 4020/11

TRANSPORTATION

BRIEFS

RAILWAY CONSTRUCTION PROJECTS--Beijing 29 September (XINHUA)--Work is in full swing on double-tracking the Hengyang-Guangzhou Railway and building the Datong-Qinhuangdao Railway, with more than 100,000 people participating. Both these projects are important capital construction tasks during the Seventh 5-Year Plan. Since the beginning of this year, more than 300 million yuan have been spent on the double-tracking of the Hengyang-Guangzhou Railway, equivalent to over 60 percent of the total investment made during the eight preceding years in this project. As for the Datong-Qinhuangdao Railway, some 100 kilometers of track have been laid and a number of tunnels and bridges completed by this time. [Summary] [Beijing XINHUA Domestic Service in Chinese 0704 GMT 29 Sep 86 OW] /12913

DIRECT CHARTED FLIGHTS BEGIN--Dalian, 24 September (ZHONGGUO XINWEN SHE)--The chartered direct flight between Dalian and Hong Kong has been formally inaugurated. At 3:15 pm today, a Trident from Hong Kong safely landed at Dalian Airport and thus completed the first flight. The Hong Kong China International Tourist Ltd. Co. runs the plane chartering business in Hong Kong and the Shenyang Civil Aviation Bureau provides the Trident passenger plane. There will be one chartered direct flight between Dalian and Hong Kong every Wednesday, leaving Dalian at 7:50 am and arriving at Hong Kong at 11:30 am and then leaving Hong Kong at 12:20 pm for the mainland. [Report: "Chartered Direct Flight Between Dalian and Hong Kong Inaugurated"] [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 0855 GMT 24 Sep 86 HK] /12913

CSO: 4006/23

END